HUSKY OIL

Canada Ltd.

1965

ANNUAL REPORT

HUSKY OIL

Canada Ltd.

Incorporated under the Canada Corporations Act

General Office
815 Sixth Street, S.W.
Calgary, Alberta, Canada

United States Office
Post Office Box 380
Cody, Wyoming

Refineries
Cody, Wyoming
Lloydminster, Alberta
Moose Jaw, Saskatchewan

Briquetting Plants
Bienfait, Saskatchewan
Dickinson, North Dakota
Isanti, Minnesota
Waupaca, Wisconsin

Division Marketing Offices
Billings, Montana
Calgary, Alberta
Fort William, Ontario
Spokane, Washington

Transfer Agents and Registrars

Common Shares — Montreal Trust Company offices at Calgary, Halifax, Montreal, Regina, Saint John, Toronto, Vancouver and Winnipeg.
The Chase Manhattan Bank, New York City.

Preferred Shares — Montreal Trust Company at above offices.

Auditors

Peat, Marwick, Mitchell & Co., Calgary, Alberta.

PRINCIPAL HUSKY COMPANIES

Husky's operations are conducted by a single operating unit although there are two principal corporations — Husky Oil Canada Ltd. and Husky Oil Company, a wholly-owned subsidiary. The two Companies have identical Boards of Directors and executive officers and are managed by a single organization. Principal subsidiaries and affiliates of the two are shown below with Husky's interest in parenthesis:

Husky Oil (Alberta) Ltd. (100%)

Amalgamation effective January 3, 1966, of six subsidiaries: Canada Western Distributors Limited, Paul Guthrie Development Ltd., Hartford Petroleums Ltd., Highwood Development Limited, Sarcee Petroleums Limited, and Stewart-Davis Oils Ltd.

Husky Briquetting, Inc. (100%)

Manufactures barbecue and heating briquets.

Rimrock Tidelands, Inc. (77%)

Contract drilling, exploration and production.

Gate City Steel Corporation (50%)

Operating results for this steel fabricating and service center firm are not consolidated in Husky financial statements.

1965 Annual Report

BOARD OF DIRECTORS

Glenn E. Nielson,
Cody, Wyoming
President of
Husky Oil Canada Ltd.

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F. R. Matthews, Q.C.,
Calgary, Alberta
Partner, Law firm of
Allen, MacKimmie,
Matthews, Wood,
Phillips & Smith

H. H. Millar,
Edmonton, Alberta
President and a Director of
Western Construction and
Lumber Co. Ltd.

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Frame
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Consultants

P. R. Payn,
Baltimore, Ontario
Executive

G. E. Roark,
Dallas, Texas
President and a Director of
James A. Lewis
Engineering, Inc.

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Lloyd Taggart,
Cody, Wyoming
Chairman of the Board of
Taggart Construction
Company

1965
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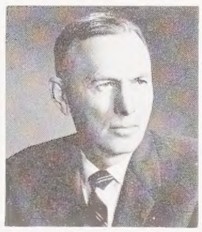
BOARD OF DIRECTORS

Glenn E. Nielson,
Cody, Wyoming
President of
Husky Oil Canada Ltd.

J. Waddy Bullion,
Dallas, Texas
Partner, Law firm of
Thompson, Knight,
Simmons and Bullion

F. R. Matthews, Q.C.,
Calgary, Alberta
Partner, Law firm of
Allen, MacKimmie,
Matthews, Wood,
Phillips & Smith

G. S. Eccles,
Salt Lake City, Utah
President and a Director of
First Security Corporation
and of First Security Bank
of Utah



H. H. Millar,
Edmonton, Alberta
President and a Director of
Western Construction and
Lumber Co. Ltd.

A. P. Frame,
Toronto, Ontario
President, A. P. Frame
Limited, Petroleum and
Petrochemical Consultants

P. R. Payn,
Baltimore, Ontario
Executive

J. L. Kalb,
Wickenburg, Arizona
Petroleum Management
Consultant

G. E. Roark,
Dallas, Texas
President and a Director of
James A. Lewis
Engineering, Inc.

J. K. McCausland,
Toronto, Ontario
Vice President and a Director
of Wood, Gundy &
Company Limited

Lloyd Taggart,
Cody, Wyoming
Chairman of the Board of
Taggart Construction
Company

EXECUTIVE COMMITTEE

Glenn E. Nielson
President

Arnold Larsen
Senior Vice President

J. D. Winzenried
Senior Vice President

T. G. Wise
Senior Vice President

H. B. Brummond
Vice President and
Assistant Manager,
Crude and Products Supply

S. L. Cate
President,
Gate City Steel Corporation

M. D. Ensign
General Manager,
Planning & Economics and
Computer Systems

S. J. Gardner
Vice President and Manager,
Crude and Products Supply

D. L. Jensen
Assistant to the President
and Assistant Secretary

M. R. McArthur
President,
Rimrock Tidelands, Inc.

R. M. McManis
Vice President and Manager,
Light Oil Marketing

J. E. Nielson
Chairman,
Husky Briquetting, Inc.

A. C. Bill Rose
Director, Public Relations

Robert Strother
General Manager,
Exploration

M. F. Westfall
Vice President and General
Manager, Production

OTHER OFFICERS

D. R. Hagerman
Treasurer

L. E. Saunders
Controller

R. G. P. Maclellan
Secretary

D. H. Flora
Assistant Secretary

R. D. Olson
Assistant Secretary

HIGHLIGHTS OF THE YEAR

FINANCIAL	1965	1964	1960
Gross operating income	$53,237,000	$50,524,000	$38,271,000
Cash flow	12,900,000	10,027,000	4,791,000
Net earnings (loss)	5,102,000	3,519,000	(2,215,000)
Equivalent per common share	69¢	48¢	(41¢)
Growth expenditures	21,516,000	24,213,000	12,087,000
Working capital at end of year	12,094,000	19,404,000	8,924,000
Long term debt and deferred income at end of year	45,866,000	47,904,000	29,686,000
Briquetting sales	1,742,000	1,462,000	434,000 (1961)
Net earnings (loss) of Rimrock Tidelands, Inc.	1,211,000	817,000	(817,000)

OPERATIONS	1965	1964	1960
Crude oil and equivalent gas production (barrels daily)	20,181	16,765	9,477
Net oil and equivalent gas reserves at year end (barrels)	235,600,000	160,000,000	100,000,000
Lloydminster blend sales (barrels daily)	8,970	6,500	—
Refinery runs (barrels daily)	16,929	15,789	14,000
Refined product sales (barrels daily)	18,295	18,343	15,921
Number of sales outlets	735	679	524

President's Report to the Shareholders

Husky's most satisfactory record of progress during the last six years is the result of excellent teamwork throughout the organization. Our policies and broad planning have been guided by an exceptional Board of Directors who are all men of outstanding ability and broad diversified experience in their respective fields. In turn, the sound policies and programs recommended by the Board have been very ably executed by our team of capable and cooperative officers, supported by a loyal organization. The improvement in all facets of the Company's activities, made possible by this teamwork, is gratefully acknowledged.

The Company's net profit in 1965 of $5,102,000 represents a gain of 45 per cent over the 1964 earnings of $3,519,000. Profits for both of these years are a gratifying change from the $2,215,000 loss sustained in 1960, the year the Canadian and U.S. Husky companies were merged. Bringing the two companies together has contributed greatly to our progress since 1960, and more important, holds even greater promise for the years ahead.

Increasing production and rising demand in eastern markets for Husky's blend of condensate and Lloydminster 16 degree gravity oil have fully justified our faith in this area. The original pipeline, built in 1963 between Lloydminster and Hardisty, Alberta, successfully proved the economic feasibility of this unusual operation. Blend sales averaged 9,000 barrels per day in 1965, a gain of 38 per cent over the 6,500 barrels daily in 1964. It is expected that 1966 volumes will be more than 13,000 barrels per day. Because of this demand, we found it necessary in 1965 to construct an eight-inch pipeline paralleling the original six-inch reversible line.

To keep pace with the increased tempo of the Company's overall operations in both acquisitions and production, these functions have been divided into two separate departments. This change was effected early in 1966 with the appointment of a General Manager of Exploration.

As a part of the Company's long-range plans for continued growth, announcement was made in December 1965 of our planned participation, with Tundra Holdings of Calgary and Marathon Realty Company Limited, in the construction in Calgary of a spectacular 550-foot Husky Tower to be located on the two block area adjacent to the famous Palliser Hotel and the CPR station.

The principal objective of our participation in this project is to obtain an office building and service station of latest design in the most ideal location in Calgary. However, it is anticipated that our Company will realize considerable profit and benefit from an advertising standpoint through identification by name with the development's most spectacular feature, the Husky Tower. This will be located on Centre Street in the heart of the city, and will be topped by an observation deck and revolving restaurant. Construction will start in the summer of 1966, and completion of the Husky Tower is expected in 1967 which will mark the Centennial of Canada's Confederation.

The new office building will be occupied by Husky Oil, Canadian Pacific Railway and other tenants. It is expected that construction will be commenced within three years. A new company, Husky Tower Limited, has been organized to own and manage the Husky Tower and associated projects to be located on Marathon Realty property.

We expect the current favorable trend in all of Husky's operations to continue in 1966, despite such perennial problems as imports, increasing costs, and artificial barriers which adversely affect trade between Canada and the United States.

We continue to recommend the establishment of a Continental Oil and Gas Policy for the North American Continent. The adoption of such a policy would improve national and international security for the free world, promote healthier relations between the two great countries served by Husky, and be of material assistance in alleviating the increasing shortage of crude oil in the United States when related to expanding markets.

Meanwhile, we face the future with confidence, supported by a competent and loyal organization which welcomes the opportunities as well as the challenges of the years ahead.

Sincerely

Glenn E. Nielson

Glenn E. Nielson, President

Review of Operations

ACQUISITIONS

As defined by Husky, acquisition includes acquiring reserves of oil and gas by purchase, trade, merger or conventional exploration methods. During 1965 Husky participated in the drilling of 69 gross exploratory wells, of which 29 were completed as producers.

An agreement has been reached for the joint purchase of the assets of International Oil & Gas Corporation, Denver, by Husky and Depco, Inc., who share equally in the purchase.

The sale approximates $31,000,000 with $24,000,000 of this sum to be derived from the sale of an oil payment. Effective date was January 1, 1966, and among the usual conditions, the sale is subject to approval by International Oil & Gas shareholders. Final closing is anticipated during the spring of this year.

Also during 1965, Husky purchased the interests of Professional Oil and Gas Co. Ltd., Calgary, in 15 wells located in Alberta, and acquired other oil and gas producing properties in two Wyoming fields from Flank Oil Co., Denver.

Acreage

In concentrating on properties near operations, Husky acquired permits on two 100,000 acre tracts in Saskatchewan near present Lloydminster holdings. We also obtained 18,000 acres in the Cold Lake region some distance north which has become a significant area because of its possible potential for reserves of heavy oil through thermal stimulation. At the end of 1965, Husky held a total of 2,495,000 net exploratory acres in North America.

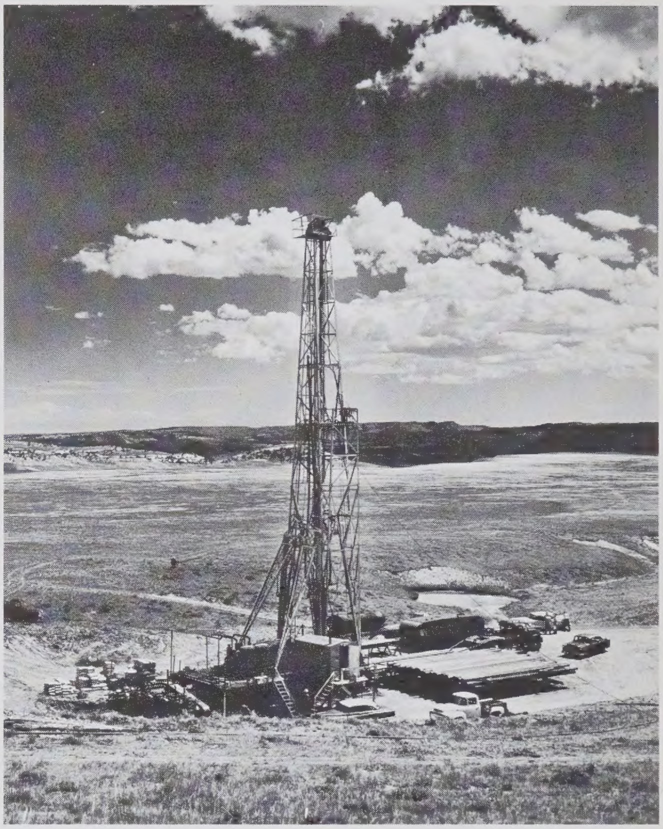
Viewing a model of the new development in downtown Calgary which will be dominated by the Husky Tower are, from left, H. M. Pickard, vice president and general manager, Marathon Realty Company Limited; Calgary Mayor Jack Leslie; President Glenn E. Nielson; and W. G. (Bill) Milne, president, Tundra Holdings, and architect of the Husky Tower.

PRODUCTION

Husky's net production of oil and equivalent gas averaged 20,181 barrels per day during 1965, an increase of 20 per cent over 16,765 barrels per day in 1964 and more than double the 1960 average. Nearly two-thirds of this 1965 production increase resulted from areas other than Lloydminster. The forecast for 1966 anticipates a greater increase in Husky's production.

Increased production of oil and gas resulted from continued emphasis on secondary recovery programs in Canada and the United States coupled with the success of an intensive drilling program which centered in the Lloydminster area of Canada and the Big Horn Basin of Wyoming. In 1965, Husky drilled 186 development wells, 171 of which were completed as producers.

Husky is participating in a number of successful secondary recovery waterflood projects in various areas of both countries. Research and field experimentation programs in steam and other secondary recovery methods have been continued. Some very encouraging possibilities have been indicated.



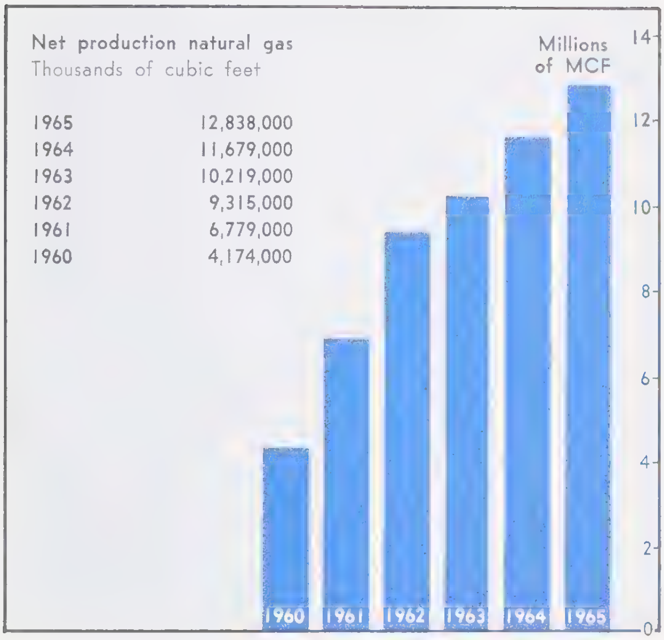
Husky's record drilling program in 1965 included the completion as producers of 200 gross wells of a total of 255 gross wells drilled.

Exploratory Acreage Holdings at December 31

	(thousands of net acres) 1965	1964
Canada:		
Alberta	380	264
British Columbia	109	181
Saskatchewan	1,208	620
Yukon and N.W. Territories	538	538
Total Canada	2,235	1,603
United States:		
Alaska	60	81
Rocky Mountain Area	192	336
Southwestern States	5	8
Other Areas	3	27
Total U.S.A.	260	452
Foreign:		
Tunisia (held by Husky)	672	653
Tunisia (held by Rimrock)	437	437
North Sea	40	40
Total Foreign	1,149	1,130

Net Oil and Equivalent Natural Gas Production

	(thousands of barrels) 1965	1964	% Change
Canada:			
Alberta	1,912	1,723	11
Saskatchewan	1,142	670	70
Lloydminster	1,546	1,096	41
Total Canada	4,600	3,489	32
United States			
Colorado	456	475	(4)
Texas	351	389	(10)
Wyoming	1,727	1,512	14
Other Areas	102	124	(18)
Rimrock Tidelands	130	130	—
Total U.S.A.	2,766	2,630	5
Total	7,366	6,119	20



Lloydminster

The secondary recovery program at Lloydminster is still in the initial stages, but results to date have assured us of substantial additional reserves and are expected to increase future production. Our development drilling program in this area has been exceptionally productive both in finding oil and in providing additional proven and probable drilling locations. With more than 350 drilling locations already mapped, our future development program includes drilling more than 150 wells annually for the next few years.

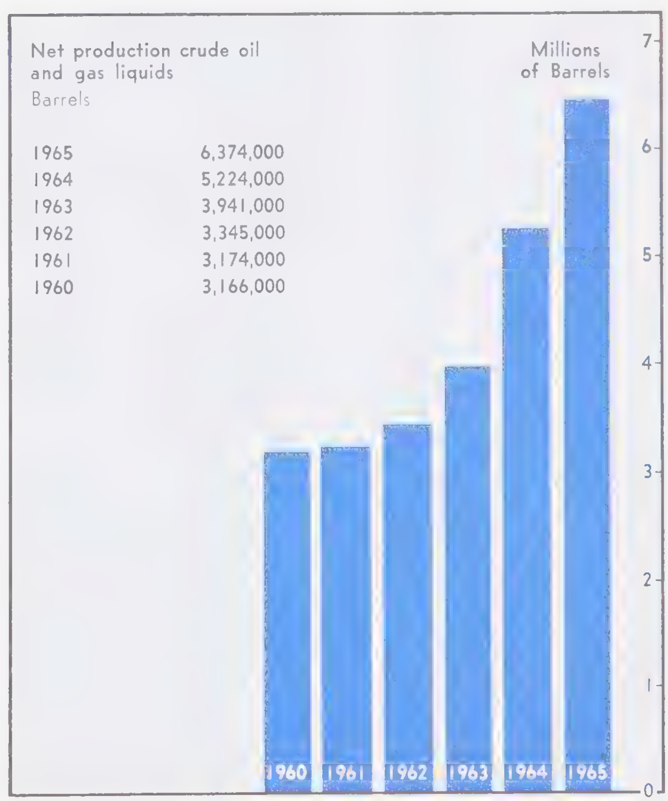
Husky now owns more than 60 per cent of the production in the Lloydminster area and 55 per cent in the Wainwright field in Alberta. We have an additional 42 per cent of the Wainwright field's productivity under contract. We refine Wainwright crude at our Lloydminster refinery in order to obtain a larger percentage of higher priced light end products and free Lloydminster crude for pipeline sales.

Summary of Wells Drilled in 1965

	Gross Wells				Net Wells			
	Oil	Gas	Dry	Total	Oil	Gas	Dry	Total
Exploratory Drilling	27	2	40	69	22.5	2.0	23.8	48.3
Development Drilling	158	13	15	186	131.9	3.0	13.9	148.8
Total Drilling	185	15	55	255	154.4	5.0	37.7	197.1

Net Oil and Gas Production

	(thousands of barrels) Oil and Gas Liquids		(Millions of cubic ft.) Natural Gas	
	1965	1964	1965	1964
Canada:				
Alberta	1,422	1,131	6,126	7,401
Saskatchewan	829	574	3,910	1,206
Lloydminster	1,528	1,084	222	145
Total Canada	3,779	2,789	10,258	8,752
United States:				
Colorado	391	395	974	1,204
Texas	319	356	485	487
Wyoming	1,676	1,453	767	878
Other Areas	85	101	259	352
Rimrock Tidelands	124	130	95	6
Total U.S.A.	2,595	2,435	2,580	2,927
Total	6,374	5,224	12,838	11,679



A new 72-mile eight inch pipeline was constructed in 1965 parallel to Husky's original six-inch reversible crude pipeline from Lloydminster to Hardisty, Alberta.

Since the beginning of 1963, Husky has invested more than $24,000,000 in the over-all Lloydminster project, including pipeline construction, purchase of production, exploration and development drilling, field gathering systems, refinery modifications and secondary recovery.

Development drilling and secondary recovery program possibilities in other areas such as Kindersley, Saskatchewan, and the Big Horn Basin of Wyoming are expected to continue to make a significant impact on both production and reserves of the Company.

Net Reserves

Based upon reports by the James A. Lewis Engineering Companies, petroleum reservoir analysts of Dallas, Texas, and Calgary, Alberta, Husky's estimated net proved, probable and possible reserves of oil and equivalent gas increased 47 per cent during 1965 to 235,600,000 barrels compared to 160,000,000 at the end of 1964.

Our estimated reserves include 62,000,000 barrels of oil and equivalent gas in the "possible" category. This large figure of "possible" reserves is justified principally by the encouraging possibilities for producing a greater percentage of the heavy oil in place in the Lloydminster area through conventional secondary recovery methods.

Net Reserves of Oil and Equivalent Natural Gas

	(thousands of barrels)			
	Proved	Probable	Possible	Total
Canada - Lloydminster	35,200	22,000	43,200	100,400
- Other	59,200	14,800	15,500	89,500
	94,400	36,800	58,700	189,900
United States	37,800	4,400	3,500	45,700
	132,200	41,200	62,200	235,600

Pipeline Interests

The growing importance of our wholly-owned Lloydminster to Hardisty pipeline is signified by the rising demand for the Lloydminster blend of crude and condensate. Most of Husky's other pipeline holdings are minority interests and are not consolidated although all are increasing significantly in value.

During 1964 and 1965, Husky delivered a daily average of approximately 6,500 barrels and 9,000 barrels, respectively, of blended Lloydminster crude to the Interprovincial Pipe Line system for transmission to eastern refiners where it is in demand for high quality asphalt products.

This expanding new market was made available to Husky through its development of the process for blending natural gas condensates with Lloydminster crude. This blending makes it possible to ship asphaltic crude long distances by pipeline. As a result, we now have a market area consisting of the whole of the Great Lakes region of Canada and the United States. It is estimated that the total Canadian demand for asphalt in this area alone approximates 20,000 barrels daily, and U.S. markets are estimated to be much greater than this volume.

Having proved the feasibility of this operation by construction of a six-inch reversible crude pipeline in 1963, Husky completed a new 72-mile eight-inch pipeline in 1965 parallel to the reversible line. Both run from Lloydminster via Wainwright to Hardisty, Alberta, a terminal point on the Interprovincial Pipe Line. Husky's pipeline now has a daily capacity of approximately 17,000 barrels of blended Lloydminster crude, and capacity can be doubled with additional pumping and heating equipment.

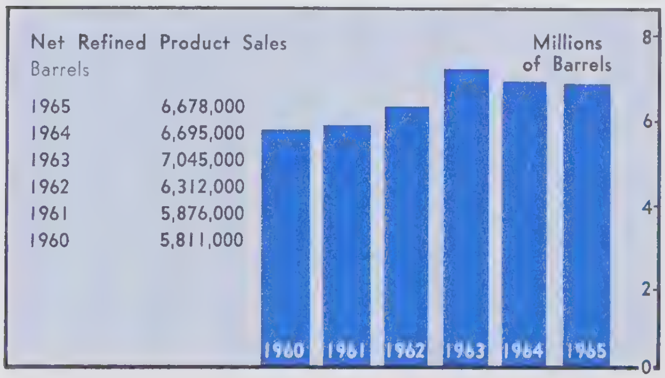
Total average daily refinery runs increased seven per cent at Husky's three refineries located at Cody, Wyoming; Lloydminster, Alberta; and Moose Jaw, Saskatchewan.

REFINING AND MARKETING

Refinery runs for the year increased seven per cent to 16,929 barrels per day while marketing volume of 18,295 barrels per day was about the same as 1964. Light oil marketing recorded its best year in company history as sales rose eight per cent, but this gain was more than offset by lower sales of heavy ends, caused by non-recurrence of sales from the Fort William refinery, now shut down, and by less favorable weather conditions than in 1964. Refining and marketing cash operating income rose 40 per cent to $4,033,000 in 1965.

Husky operates three refineries with rated daily capacities aggregating about 20,000 barrels. They are located at Cody, Wyoming; Lloydminster, Alberta; and Moose Jaw, Saskatchewan. Continuing efforts for more efficient operations in 1965 resulted in lowering refining costs the equivalent of seven cents per barrel below 1964.

Safety continued to be basic practice in all of Husky's operations. We are justifiably proud of the safety record compiled at our refineries. Particularly significant is the record of the Moose Jaw refinery whose employees were cited by a special resolution of the Board of Directors in December for having completed more than seven years without a lost-time injury.



Refinery Runs

Refinery	1965	1964
	(thousands of barrels)	
Cody, Wyoming	3,673	3,407
*Fort William, Ontario	—	159
Lloydminster, Alberta	1,523	1,282
Moose Jaw, Saskatchewan	983	915
	6,179	5,763

* Operations closed February, 1964

Husky's marketing position was improved in 1965 through the addition of 50 retail and six wholesale outlets.

Light Oil Sales

Firmer product prices during part of 1965, combined with more profitable gallonage distribution and efficiency of operations enabled light oil marketing to record its most successful year. Husky's marketing territory covers seven states in the northwestern U.S. and six Canadian provinces.

Marketing continues to be an important part of Husky's operations since we firmly believe that fully integrated operations offer the strongest position for the company's future. The addition in 1965 of 50 retail and six wholesale outlets helped to increase and improve our present marketing position. Of these, four were new high-volume retail outlets and 11 were stations acquired in the Winnipeg area.

Husky Sales Outlets

Marketing Division	Service Stations	Bulk Plants	Total
Calgary	189	47	236
Billings	131	54	185
Spokane	149	37	186
Fort William	105	23	128
	574	161	735

OTHER INTERESTS

Husky Briquetting

Total sales of Husky Briquetting, Inc., a wholly-owned subsidiary, increased 19 per cent in 1965 to $1,742,000 compared with $1,462,000 in 1964. Along with barbecue briquets, the company produces and markets domestic briquets and char.

In September, 1965, a briquetting facility was acquired at Waupaca, Wisconsin. In January, 1966, an option was exercised to purchase the shares of Rum River Charcoal at Isanti, Minnesota. Other briquetting operations are located at Bienfait, Saskatchewan and Dickinson, North Dakota.

Acquisition of the two new facilities places this company in a more favorable position to utilize existing char producing facilities and to more economically supply mid-western U.S. markets of approximately 44,000,000 consumers.

Husky Briquetting, Inc., increased total sales in 1965 by 19 per cent and acquired two briquetting facilities at Waupaca, Wisconsin, and Isanti, Minnesota.

Rimrock Tidelands, Inc., increased net profit 48 per cent in 1965. This 77 per cent Husky-owned subsidiary operates three offshore rigs in the Gulf Coast area including the "Rimtide" shown here.

Rimrock Tidelands

Through an offer in July of 1965 to purchase additional shares, Husky's ownership of Rimrock Tidelands, Inc., was increased to 77 per cent. Rimrock's net profit in 1965 rose 48 per cent to $1,211,000 as Gulf Coast offshore drilling and foreign activity expanded. The three Rimrock offshore rigs are under contract to major operators in the Gulf Coast area.

Foreign drilling costs of both Rimrock and Husky were carried by another company during most of 1965 on a farmout agreement. While our drilling efforts on Tunisian permits have encountered some shows of oil and gas, no commercial production has been indicated. The permits expire in 1966 unless renewed by the companies with additional work commitments. The matter of renewal is presently under consideration.

Headquarters of Gate City Steel Corporation, shown here, are located at Omaha, Nebraska. Husky owns 50 per cent of the firm and results are not consolidated. Net profit of Gate City Steel rose 10 per cent in 1965 before payment of income taxes.

Gate City Steel

Net profit of Gate City Steel Corporation, before income taxes of $150,000, totalled $724,000. This was an increase of 10 per cent over $656,000 in 1964. Husky owns a 50 per cent interest in the firm and results are not consolidated. Our 50 per cent share of profits after income taxes was $287,000.

Assets of Marsh Steel Company were acquired in 1965. As a result Gate City Steel now has a total of six plants which are located at Albuquerque, New Mexico; Baton Rouge, Louisiana; Boise and Pocatello, Idaho; Denver, Colorado; and Omaha, Nebraska, where this steel fabricating and service center firm is headquartered.

Phosphate Deposits

An extension of the time period has been agreed to on our arrangement with International Minerals and Chemical Corporation regarding Husky's phosphate deposits near Soda Springs, Idaho. This extension will give International Minerals and Chemical additional time in which to submit a proposal for construction of a jointly-owned plant for the manufacture of commercial fertilizer.

Husky will retain a $3,000,000 interest-free loan until December of 1967 or approximately one year after the joint plant proposal is made, whichever date occurs first. It is expected that International Minerals and Chemical will present a plant proposal at an early date.

Under the extension agreement, Husky also retains the right to acquire a 40 per cent interest in a development project, or to sell its interests in the phosphate deposits for $3,000,000 plus one-half of the appraised value of the deposits above that amount.

FINANCIAL REVIEW

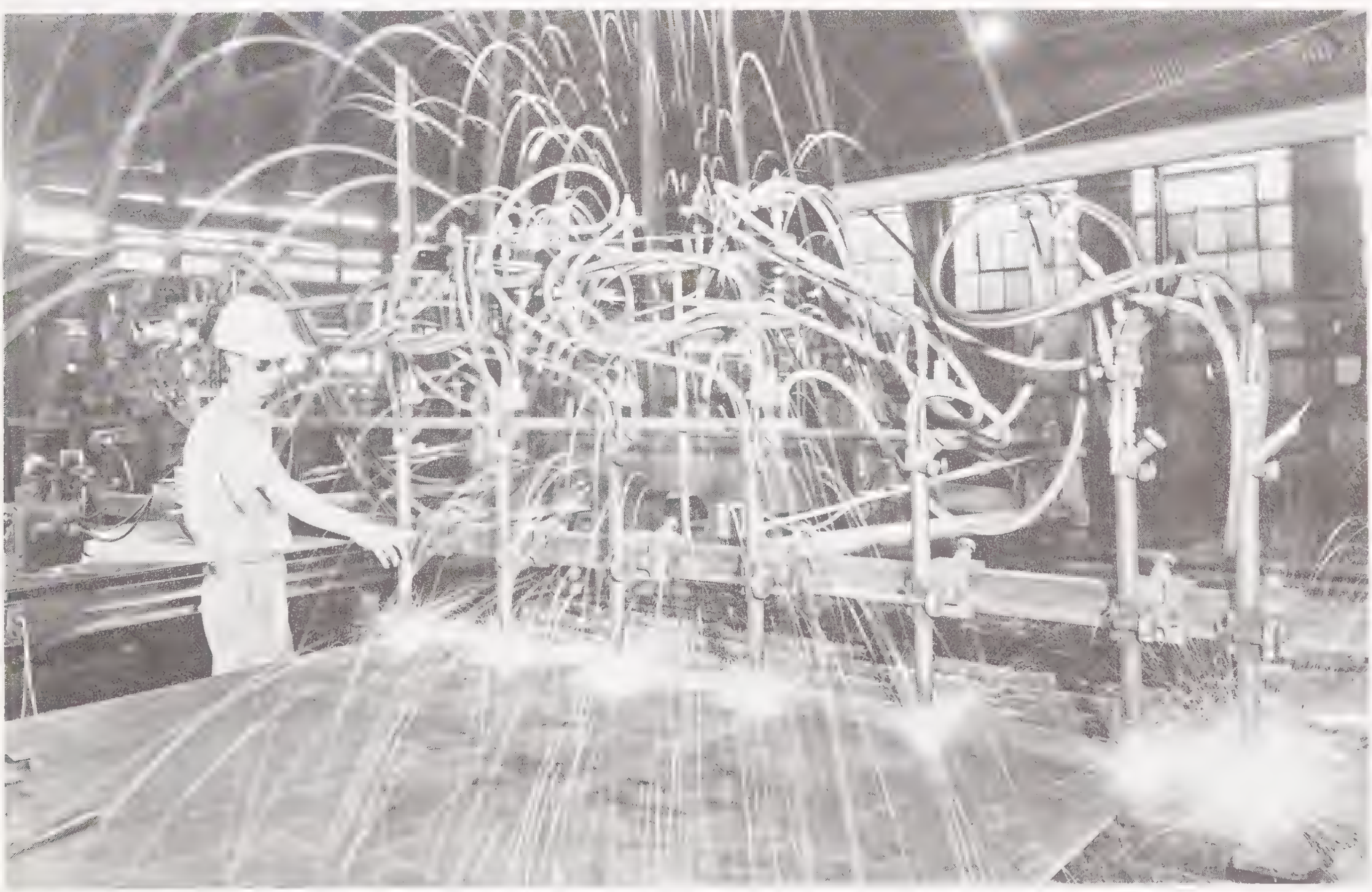
Husky's 1965 consolidated net profit increased 45 per cent to $5,102,000 compared with 1964 net earnings of $3,519,000. Sales and operating revenues were $53,237,000, or five per cent higher than in 1964, while costs and operating, selling and general expenses declined $872,000. This largely accounted for an increase in cash flow from $10,027,000 in 1964 to $12,900,000 in 1965.

On a common share basis, our 1965 earnings were equivalent to 69 cents per share, an increase of 44 per cent over 1964 earnings of 48 cents per share.

No significant new financing was instituted in 1965. Growth expenditures of $21,500,000 were financed largely out of cash flow and excess cash available from our 1964 financing program. As a result, working capital declined $7,300,000 to $12,100,000 while long term debt and deferred income declined about $2,000,000.

Source and Use of Funds

A total of $22,800,000 was obtained from all sources in 1965. Funds employed during the year totalled $30,100,000. A comparative statement of source and use of funds appears on page 14. An analysis of Growth Expenditures indicates that the major capital expenditures were made for the purpose of acquiring new reserves through purchase, exploration and development drilling.



A steel fabricating job for a Gate City Steel customer creates this interesting fireworks pattern in one of the firm's six plants and service centers.

Husky Shareholders

A total of 10,121 shareholders were on record at the end of 1965 as owners of 6,243,843 common shares, compared with 6,207,593 shares at the end of 1964. Because of redemption requirements, total preferred shares issued and outstanding declined to 263,413 at the end of 1965 compared with 271,363 in 1964.

Husky stock continues to be widely held, with owners residing in practically every province or state in Canada and the United States as well as in England and various European countries. Husky common shares continue to be exempt from the U.S. Interest Equalization Tax. This exemption permits U.S. citizens and residents to buy and sell Husky's common shares as readily as if they were shares of any U.S. company.

Comparative Statement of Source and Use of Funds

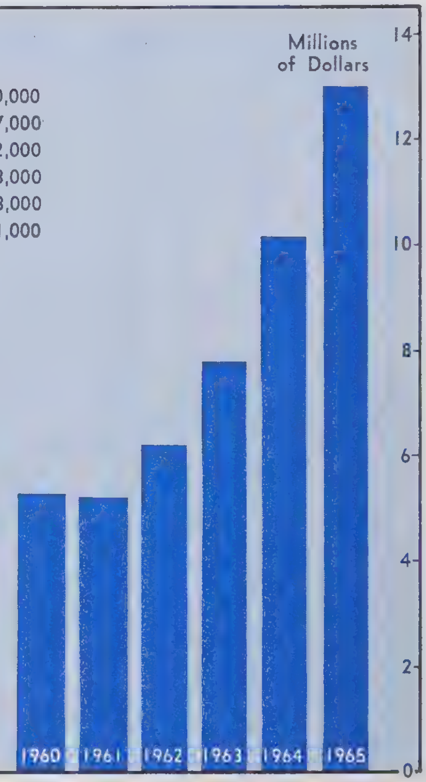
	(thousands of dollars) 1965	1964
Funds were obtained from:		
Sales and operating revenues	$53,237	$50,524
Less: Costs and operating, selling and general expenses	37,544	38,416
	15,693	12,108
Issue of long term debt - net of costs of issue	1,758	19,533
Issue of preferred shares - net of costs of issue	200	9,856
Issue of common shares	179	161
Sale of capital assets	527	826
Decrease in notes receivable	4,238	643
Miscellaneous - net	164	(358)
Increase in working capital on acquisition of subsidiary	—	610
	$22,759	$43,379
Funds were used for:		
Growth expenditures	21,516	24,213
Other investments and advances	368	232
Sinking funds and other debt retirement	4,425	9,306
Interest (net of interest income)	2,101	1,479
Minority interests in profits of subsidiaries	852	809
Dividends on preferred shares of parent company	807	514
	30,069	36,553
Increase (decrease) in working capital	$(7,310)	$ 6,826

Summary of Earnings

	(thousands of dollars) 1965	1964	% Change
Gross operating income	$53,237	$50,524	5
Costs and operating, selling and general expenses	37,544	38,416	(2)
Depreciation, depletion and amortization	7,318	6,100	20
Other charges	2,421	1,680	44
Minority interest in subsidiaries	852	809	5
Net earnings	$ 5,102	$ 3,519	45

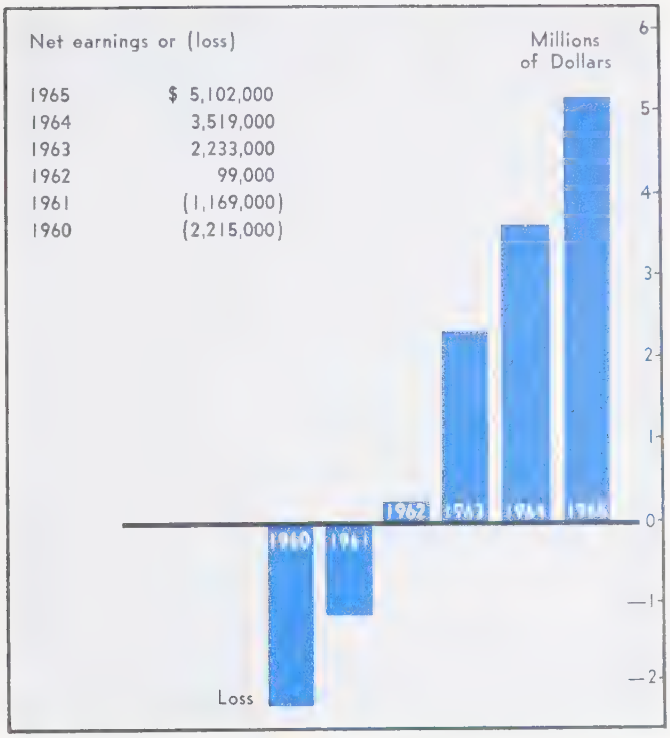
Cash Flow

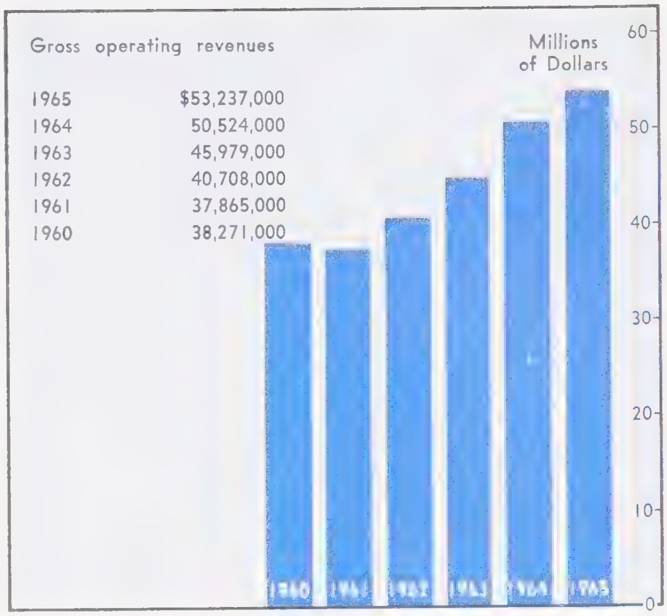
1965	$12,900,000
1964	10,027,000
1963	7,452,000
1962	6,083,000
1961	4,783,000
1960	4,791,000



Growth Expenditures

	(thousands of dollars) 1965	1964
Exploration	$ 3,364	$ 1,731
Development and acquisition of producing properties	9,448	12,489
Refining, manufacturing and other facilities	926	1,591
Marketing additions and improvements	2,162	2,390
Pipeline facilities	2,621	2,253
Purchase of additional common shares of subsidiary	2,038	—
Drilling equipment (Rimrock Tidelands)	957	3,759
	$21,516	$24,213





An artist's drawing depicts the Husky Tower against Calgary's skyline. Just to the left is the proposed new office building to be occupied by Husky, the Canadian Pacific Railway and other tenants. A new transportation terminal and other business, including a Husky service station of latest design, will be incorporated into the plaza-like setting between the Palliser Hotel, at far right, and the new building, at far left, of Canadian Pacific Oil and Gas Limited which is presently under construction.

Consolidated Balance Sheet

ASSETS

	1965	1964
Current Assets		
Cash and short term deposits	$ 3,148,395	$ 10,115,924
Marketable securities—at cost which approximates market	171,914	247,902
Notes and accounts receivable, less allowance for doubtful accounts	10,614,482	9,796,484
Inventories at lower of cost or replacement market	6,961,511	6,344,535
Prepaid expenses	460,789	1,014,149
Total current assets	21,357,091	27,518,994
Non-Current Assets		
Notes and contracts receivable, less amounts due within one year included in current assets above	1,691,447	5,553,311
Investment in shares of affiliated company—at cost	1,497,302	1,497,302
Sundry investments and miscellaneous assets—at cost less amounts written off	1,353,566	1,516,145
	4,542,315	8,566,758
Property, Plant and Equipment (Note 2)		
Oil and gas properties and equipment	70,926,631	59,904,780
Refining, manufacturing, marketing and transportation facilities (including land of $3,201,519) and other assets	47,494,783	42,404,328
Drilling rigs and equipment	8,770,539	8,168,290
	127,191,953	110,477,398
Less accumulated depreciation and depletion	43,848,738	38,827,729
	83,343,215	71,649,669
Other Assets—at cost less amounts written off		
Debt discount and expense	1,011,849	1,124,864
Trade marks	590,001	590,001
Other intangible assets	1,351,369	369,848
	2,953,219	2,084,713
	$ 112,195,840	$ 109,820,134

Approved on behalf of the Board:

GLENN E. NIELSON, Director

F. R. MATTHEWS, Director

LIABILITIES

	1965	1964
Current Liabilities		
Accounts payable and accrued expenses	$ 7,093,166	$ 5,991,032
Dividends payable on preferred shares	51,947	—
Current portion of long term debt	2,118,381	2,124,308
Total current liabilities	9,263,494	8,115,340
Deferred Income (Note 3)	3,258,073	4,529,546
Long Term Debt (Note 4)	42,607,931	43,374,721
Note Payable (Note 5)	3,000,000	3,000,000
Capital and Surplus (Notes 6, 7 and 8)		
Minority shareholders of consolidated subsidiary companies		
Preferred shares	7,246,600	7,519,500
Common shares	286,908	494,395
Surplus	1,085,849	1,390,158
	8,619,357	9,404,053
Shareholders of parent company		
Cumulative, redeemable, preferred shares par value $50 each;		
Authorized 400,000 shares;		
Series A, 6%, issued and outstanding 69,263 shares; 1964, 71,363 shares	3,463,150	3,568,150
Series B, 6%, issued and outstanding 194,150 shares; 1964, 200,000 shares	9,707,500	10,000,000
Common shares, par value $1 per share:		
Authorized 10,000,000 shares; issued and outstanding 6,243,843 shares; 1964, 6,207,593 shares	6,243,843	6,207,593
Undistributable capital surplus arising from purchase and redemption of preferred shares	397,500	—
Other paid in capital	18,596,275	18,453,915
Retained earnings	7,038,717	3,166,816
	54,066,342	50,800,527
Commitments and Contingencies (Note 9)		
	$ 112,195,840	$ 109,820,134

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Earnings

FOR THE YEAR ENDED DECEMBER 31, 1965

(with comparative figures for 1964)

	1965	1964
Income		
Sales and operating revenues	$ 53,237,265	$ 50,524,555
Deductions		
Cost of sales and operating expenses	32,447,001	33,975,851
Selling, general and administrative expenses	5,096,919	4,439,744
Interest (net of interest income of $574,885 in 1965 and $519,931 in 1964) (Note 4)	2,101,170	1,479,288
Miscellaneous—net	213,474	118,352
Depreciation	4,696,762	3,936,634
Depletion	2,621,751	2,163,520
Foreign exploration costs	106,525	83,254
Minority interests in subsidiaries		
Preferred share dividends	478,520	483,401
Profits	373,030	325,268
	48,135,152	47,005,312
Net Earnings (Note 10)	$ 5,102,113	$ 3,519,243

Consolidated Statement of Surplus

FOR THE YEAR ENDED DECEMBER 31, 1965

	Other Paid in Capital	Retained Earnings
Balance at beginning of year (Note 8)	$ 18,453,915	$ 3,166,816
Add:		
Excess of consideration received over par value of 36,250 common shares issued	142,360	
Net earnings for the year		5,102,113
	18,596,275	8,268,929
Deduct:		
Dividends on 6% preferred shares		806,916
Provision for redemption of preferred shares		422,147
Sundry debit		1,149
	—	1,230,212
Balance at end of year	$ 18,596,275	$ 7,038,717

The accompanying notes are an integral part of the financial statements.

Financial and Operating Summary

FINANCIAL (thousands of dollars)	1965	1964	1963	1962	1961	1960
Gross operating income	$53,237	$50,524	$45,979	$40,708	$37,865	$38,271
Costs and operating, selling and general expenses	37,544	38,416	36,881	32,964	31,642	31,755
Interest (net of interest income)	2,101	1,479	1,432	1,348	1,604	1,373
Miscellaneous - net	213	118	(207)	(100)	(540)	66
Depreciation, depletion and amortization	7,318	6,100	5,071	4,305	4,637	4,415
Exploration costs and overhead	107	83	—	1,696	1,230	2,916
Minority interests in subsidiaries	852	809	569	396	461	(39)
	$48,135	$47,005	$43,746	$40,609	$39,034	$40,486
Net earnings (loss)	$ 5,102	$ 3,519	$ 2,233	$ 99	$ (1,169)	$ (2,215)
Financial Position						
Working capital	12,094	19,404	12,578	11,069	11,851	8,924
Deferred income	3,258	4,530	1,260	—	—	—
Long term debt	42,608	43,375	35,501	26,136	28,295	29,686
Preferred shares outstanding, at par value	13,171	13,568	3,568	3,568	3,568	3,568
Preferred share dividends	807	514	214	214	214	214
Common shares outstanding, at par value $1 per share	6,244	6,208	6,169	6,123	6,091	5,842
Earnings per common share after preferred dividends	69¢	48¢	33¢	(1¢)	(21¢)	(41¢)

OPERATING

	1965	1964	1963	1962	1961	1960
Production						
Net crude oil and equivalent gas production						
Thousands of barrels	7,366	6,119	4,716	4,047	3,677	3,459
Daily average barrels	20,181	16,765	12,920	11,088	10,074	9,477
Crude oil and gas liquids production						
Thousands of barrels	6,374	5,224	3,941	3,345	3,174	3,166
Daily average barrels	17,463	14,312	10,796	9,163	8,697	8,674
Natural gas production MMCF	12,838	11,679	10,219	9,315	6,779	4,174
Daily average MCF	35,173	32,000	27,998	25,521	18,573	11,435
Refining						
Crude oil processed						
Thousands of barrels	6,179	5,763	6,301	6,289	5,985	5,110
Daily average barrels	16,929	15,789	17,263	17,231	16,396	14,000
Marketing						
Refined product sales						
Thousands of barrels	6,678	6,695	7,045	6,312	5,876	5,811
Daily average barrels	18,295	18,343	19,302	17,293	16,100	15,921
Exploration and development						
Number of wells drilled						
Gross (net)	255(197.1)	181(124.5)	120(84.9)	35(20.0)	60(37.8)	54(24.3)
Exploratory	69	33	27	27	23	30
Development	186	148	93	8	37	24
Successful wells completed						
Gross (net)	200(159.4)	145(103.9)	86(60.5)	17(9.6)	40(27.0)	24(13.7)
Exploratory	29	19	8	10	9	8
Development	171	126	78	7	31	16

Notes to the Consolidated Financial Statements

1. The consolidated financial statements include the accounts of United States subsidiaries at $1 U.S. = $1 Cdn.

2. Property, plant and equipment is carried at cost (except for certain petroleum and natural gas properties which were written down at January 1, 1958) less accumulated depreciation of $32,489,913 and depletion of $11,358,825.

3. Deferred income as at December 31, 1965, consisted of $2,529,088 as to the remaining principal amount of a production payment sold in 1964 and $728,985 as to the unamortized balance of a gain on the sale and leaseback of certain drilling rigs and equipment in 1963.

4. Long term debt (partly secured) at December 31, 1965, consisted of:

6% Sinking Fund Debentures, Series A, due November 2, 1984	$18,979,000
Production loans—promissory notes or debentures:	
6¼% maturing semi-annually until November 1, 1974	805,000
5½-6% maturing semi-annually until February 1, 1975	839,903
5½% maturing quarterly until February 1, 1970	6,871,126
5⅜% - 5⅝% maturing quarterly until December 31, 1975	10,362,500
5% repayable only in amounts equal to 50% of specified production	2,043,353
5⅝% lease purchase contract maturing semi-annually until September 30, 1975	1,500,000
Mortgage, no interest, maturing December 1, 1968	1,454,448
Other notes and contracts with varying interest rates and maturities	1,870,982
	44,726,312
Less amounts due within one year	2,118,381
	$42,607,931

Interest on long term debt in 1965 was $2,676,055.

The indentures attaching to the production loans aggregating $18,878,529 require, under conditions specified therein, "mandatory contingent payments" without premium in the inverse order of maturity.

Certain properties and other assets having an aggregate cost of approximately $39,000,000 are specifically mortgaged or pledged as collateral for production loans and other secured obligations.

5. The Note Payable of $3,000,000 represents a loan from a bank due December 15, 1966. Another company pays the interest and may, at its option, substitute itself as lender and has agreed to provide the $3,000,000 interest free for an additional period of up to one year. Husky Oil Company has the option to pay the note and participate in the development of certain phosphate deposits which it owns, or to sell the properties for $3,000,000 plus 50% of the appraised value (as defined) in excess of $3,000,000, or the note may be retired under specified conditions and a 25% interest in the deposits conveyed to the other company.

6. The terms of issue of the redeemable preferred shares of a subsidiary company require in 1966 the redemption of $481,100 at par plus accrued dividends.

7. There were 36,250 common shares issued in 1965 for $178,610. The terms of issue of the preferred shares provide for annual sinking fund provisions sufficient to retire 2,100 Series A shares and 5,850 Series B shares at $53.50 and $52.50 per share, respectively.

Under the terms of an agreement with Mr. and Mrs. Glenn E. Nielson in 1960 covering the exchange of their shares of Husky Oil Company, for common shares of the Company, an additional 138,909 common shares of Husky Canada were reserved for possible future issue to them. The issue of these shares was dependent on certain properties attaining a specified valuation on or before June 30, 1965. Such 138,909 common shares were the balance of common shares which the Company was otherwise obligated to issue, but for such agreement, to the Nielsons pursuant to their acceptance of an offer made June 13, 1960 by the Company to all shareholders of Husky Oil Company for exchange of their common shares of Husky Oil Company for common shares of the Company, the basis of exchange being eight common shares of the Company for nine common shares of Husky Oil Company. The properties have been evaluated in accordance with the agreement and the appraised value was determined to be substantially more than sufficient for the fulfillment of the conditions. When the shares are issued, the amount of $138,909 representing the aggregate par value of the shares will be transferred from other paid in capital to the common share account.

At December 31, 1965, there were stock purchase warrants outstanding giving to the holders the right to purchase 237,110 common shares of the company. The warrants are exercisable as follows:

199,610 at prices escalating from $9.00 to $16.50 per share expiring June 30, 1974.

37,500 at $24.00 per share expiring August 1, 1967.

At December 31, 1965, 203,190 common shares were reserved for issue pursuant to a Share Option Plan for officers and employees. Information as to options granted and exercised during 1965 is as follows:

	Number of Shares	Option Price Per Share
Under option at December 31, 1964	143,200	$4.10 to $6.77
Options granted	96,000	$12.94
Options exercised	36,010	$4.10 to $6.77
Under option at December 31, 1965	203,190	$4.10 to $12.94

These options are or become exercisable during the years 1966 to 1975.

8. The shareholders of the company by resolution dated April 30, 1964, approved the appropriation of $6,425,032 from other paid in capital at January 1, 1963, which amount was used to eliminate the consolidated deficit as of that date.

9. Commitments and contingencies:

The Company has given a guarantee of the liabilities of Gate City Steel Corporation under the terms of a 10 year lease of certain warehouse and fabricating plants. The liability of the Company under the guarantee is initially $4,000,000 but will decline over the term of the lease.

The Company and its subsidiary companies have entered into long term agreements to lease items of property, plant and equipment at fixed annual rentals which aggregate approximately $1,200,000. Husky Oil Company has guaranteed that it will use certain pipelines owned by related interests to the extent that the tariffs on annual throughput will approximate $500,000. Tariffs paid in 1965 on actual throughput exceed that amount. The subsidiary has the right to purchase the pipelines at depreciated cost, as defined, at any time after October 31, 1967.

In December, 1965 Husky Oil Company assigned to a bank a note receivable from a third party for $1,951,021 being the principal balance of the note plus accrued interest. The subsidiary has unconditionally guaranteed payment of the note.

In December, 1965, Husky Oil Company and Depco, Inc. jointly agreed to purchase the residual interest in the oil and gas properties in the United States of International Oil and Gas Corporation, after the sale by that company of an oil payment of $24,000,000, for a consideration of approximately $7,000,000. The purchase is subject to certain conditions not yet fulfilled. The cost to the subsidiary under the agreement will be approximately $3,500,000.

In December, 1965, the Company contingently agreed to purchase effective January 15, 1966, certain gas properties in Alberta for $1,800,000 in the ordinary course of its business. The agreement has not yet been closed. This transaction has not been reflected in the Company's accounts as of December 31, 1965.

Certain other commitments or contingencies exist which may involve costs or losses arising in the ordinary course of business.

10. No provision has been made for federal taxes on income since the Company has expended more than sufficient amounts on drilling and exploration costs which may, for income tax purposes, be applied against the reported earnings so that there are no taxes payable. Included in Miscellaneous Expense is $119,000 of Tunisian and U.S. state income taxes.

11. In 1965, the total remuneration received as a director, officer or employee by directors was $100,000.

Auditors' report to the shareholders

We have examined the consolidated balance sheet of Husky Oil Canada Ltd. and subsidiaries as of December 31, 1965 and the consolidated statements of earnings and surplus for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and surplus present fairly the financial position of the company and subsidiaries at December 31, 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Calgary, Alberta
February 22, 1966

HUSKY

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PRINTED IN CANADA

W. C. PITFIELD & COMPANY LIMITED
HUGH MACKAY & COMPANY LTD

SPECIAL REPORT

HUSKY OIL CANADA LTD.

Price Sept. 17, 1964	Earnings per share 1963	1964 (est.)	P. E. Ratio (on 1964 est.)	Cash flow per share 1963	1964 (est.)	P.C.F. Ratio (on 1964 est.)
$10 1/4	33¢	50¢	20.5X	$1.15	$1.46	7.0X

SUMMARY

The Company Husky is an integrated oil company operating in both Canada and the United States. Consolidated assets exceed $97,000,000 and sales in 1963 amounted to over $46,000,000. Husky's production has a significantly high proportion of asphaltic crude and its refineries are geared to the production of both light-end and asphaltic products.

Production Husky is one of the leading producers of asphaltic crude in Canada and its fortunes are closely aligned with the markets for asphalt products. During 1963 Husky constructed a 72-mile pipeline connecting the Lloydminster field to the Interprovincial Pipeline system, which has enabled it to deliver blended Lloydminster asphaltic crude to refiners in eastern Canada and the U.S. mid-west. As part of its overall Lloydminster Project Husky spent approximately $10,000,000 during 1963 in pipeline construction, development of production, acquisitions and refinery modifications and this has led to the revitalization of the Lloydminster field, in which Husky has over a 50% interest. The Lloydminster Project together with acquisitions and secondary recovery programs which have been carried out over the past few years in other areas are expected to result in Husky's oil production increasing 35% during 1964 and showing good growth over the next few years.

Refining-Marketing Husky during the past four years has modernized its Cody, Wyoming and Lloydminster, Alberta refineries enabling them to achieve higher throughputs of the more profitable light-end products. During the same period the number of marketing outlets have been increased from 524 in 1960 to 609 in 1963. Over the next five years it plans further rapid expansion of its marketing outlets which will place its marketing operations in a more favourable position.

Accounting Change During 1963 Husky changed its method of accounting for exploration and intangible development expenses, whereby it now capitalizes the total costs associated with the finding of oil and gas. The method generally followed by oil companies of writing off against income all expenditures incurred in the unsuccessful search for oil and gas results in reserves being carried only at cost, which fails to reflect the true value of its reserves, thus the equity value is understated. Husky's change in its accounting method was done so as to reflect its accomplishments in more positive terms.

Asset Evaluation In this report we have determined that Husky's assets have an estimated value of approximately $16.70 per share, as compared with its book value of only $3.92 per share as at December 31, 1963.

Earnings The improvement in Husky's overall operations since the consolidation of the Canadian and U.S. companies in 1960 is indicated by its earnings, which after preferred dividends have increased from a loss of $2,375,000 in 1960 to a profit of $2,019,000 or 33¢ per share in 1963. While the accounting change in 1963 increased net earnings for that year by $1,365,000, in real terms its operations have resulted in earnings improving by approximately $1,000,000 in each of the past three years.

The estimated earnings for 1964 of $3,073,000 or 50¢ per share represents another increase of approximately $1,000,000 and in projecting earnings for the next few years it is expected that net profit will show further increases in the order of $1,000,000 annually, reaching the equivalent of about 80¢ per share in 1966.

Comment Husky's future earnings prospects and the possibility of a dividend in the future, we believe, make the shares an attractive investment. At $10 1/4 they are trading at 20.5 times our estimated earnings per share for 1964 and at only 7.0 times the 1964 projected cash flow per share.

In our opinion Husky represents an interesting special situation, offering good capital gains potential over the medium term and we recommend its purchase.

HUSKY OIL CANADA LTD.

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HUSKY OIL CANADA LTD.

The Company

Husky Oil Canada Ltd. ("Husky") is an integrated oil company operating between the Rocky Mountains and the Great Lakes in both Canada and the United States. Its assets are divided about equally between the two countries. Total assets exceed $97,000,000 on its books and have a realizable value considerably above this figure.

Husky's production has a significantly high proportion of asphaltic crude and its refineries are geared to the production of both light-end and asphaltic products. In planning its marketing outlets Husky has given recognition to the great distances in the areas it serves and has concentrated on the larger highway stations. Husky also has a number of investments which add potential to its earnings base including off-shore drilling, exploratory drilling in Tunisia and the pipeline transmission of crude oil and finished products.

On July 6, 1964 Husky made an offer to purchase the shares of Sarcee Petroleums Limited ("Sarcee") at $2.30 per share. As at September 15, 1964 Husky had purchased over 90% of the outstanding shares and the offer remains open until November 9, 1964.

Capitalization

As at June 30, 1964 (1)

	Authorized	Outstanding
Funded debt	-	$42,131,594
Shareholders' equity		
Minority interest		$ 8,903,740
Preferred shares par value $50	$20,000,000	$13,568,150
Common shares (2)	10,000,000shs.	6,178,693 shs.

(1) After giving effect to the issuance of an additional 200,000 6% Cumulative Redeemable Preferred Shares on June 30, 1964.

(2) 171,950 Common Shares are reserved for issue to officers and employees under the Company's share option plan. Stock purchase warrants covering 660,160 shares are exercisable at $14 up to December 14, 1964; 37,500 shares exercisable at $24 up to August 1, 1967;and 200,000 shares exercisable at prices from $9 to $16.50 up to June 30, 1974.

Management

Husky's operations are under the direction of Mr. Glenn E. Nielson (age 61), who organized the Company in 1938, who has been its President and chief executive officer since then and who has been primarily responsible for its growth and present position. Since 1960 the management team has undergone considerable change to consolidate the U.S.and Canadian companies into a single organization. Recent appointments established Mr. Arnold Larsen (47), Mr. Jesse D. Winzenried (42), and Mr. Thomas G. Wise (57), as Senior Vice-Presidents and Messrs. H. B. Brummond, S. S. Gardner, R. M. McManis and M. F. Westfall as Vice-Presidents. Table 1 attached gives further details on Husky's present organizational set-up, the members of the executive committee and their departmental functions.

Operations

To get an idea of the relative importance of exploration, production, marketing and other areas of Husky's overall operation, it is useful to take a look at the assets employed in the various segments of the business and we have rearranged Husky's published balance sheet as at December 31, 1963 to achieve a clearer evaluation of its various assets.

Husky Oil Canada Ltd.

Assets - as at December 31, 1963

	Net book value	% of total assets
Current assets	$22,911,000	26.0%
Non-current assets		
Notes and contracts receivable	$ 6,077,000	
Sundry investments	2,671,000	
	$ 8,748,000	9.9%
Property, plant and equipment		
Production		
Developed oil & gas properties	$26,715,000	
Undeveloped properties	3,705,000	
Lloydminster-Hardisty pipeline	4,633,000	
	$35,053,000	39.7%
Refining	$ 8,653,000	9.8%
Marketing	$ 6,040,000	6.8%
Drilling rigs and equipment	$ 2,692,000	3.1%
Other fixed assets		
Rangely gasoline plant	$ 77,000	
Phosphate properties	168,000	
Briquetting assets	1,509,000	
Miscellaneous	1,235,000	
	$ 2,989,000	3.4%
Other assets	$ 1,143,000	1.3%
Total assets	$88,229,000	100.0%

Reserves Acquisition

Since 1960 Husky has followed a new reserve acquisition policy under which emphasis is being given to purchase of reserves in place, secondary recovery and field extensions, as well as exploration. This new policy has resulted in a reduction in annual exploration expenditures and increased its oil and gas reserves by over 31% during the four years ended December 31, 1963. Highlights of Husky's exploration and development program over the past four years are given in Table 2.

Husky's secondary recovery program in the United States has been responsible for maintaining production levels in many fields. Husky is presently investigating the most economical method of secondary recovery for the Lloydminster field where an increase in the recovery factor above the present primary rate of 5% will add significantly to its production and reserves.

Husky's secondary recovery program in the United States is resulting in further increases in production of medium and light crude in that area and another project in the Wainwright field of Alberta is already adding materially to total production of medium gravity crude. Secondary recovery prospects for the Dodsland, Saskatchewan field acquired from Sarcee are regarded as excellent and operations there are under-way.

Reserves

James A. Lewis Engineering of Dallas, Texas and Calgary, Alberta has prepared an estimate of Husky's oil and gas reserves as at January 1, 1964. On the basis of their findings, Husky's proven, probable and possible reserves in both Canada and the United States were as follows:

	Proven	Probable	Probable & possible waterflood	Possible	Total reserves estimated
Crude oil (000's bbls.)					
Canada	47,033	5,454	12,424	5,148	70,059
United States	24,982	659	8,833	861	35,335
Total crude oil	72,015	6,113	21,257	6,009	105,394
Natural gas (M.M.C.F.)					
Canada	229,080	1,668	-	28,416	259,164
United States	36,780	2,616	-	1,018	40,414
Total natural gas	265,860	4,284	-	29,434	299,578

Lewis Engineering estimated Husky's total oil reserves as at January 1, 1960 at approximately 80,000,000 barrels indicating an increase in oil reserves of 25,394,000 barrels or 31.7% during the four years. If Husky's production of 13,626,000 barrels during the four year period were also included, the total increase in oil reserves would amount to 49% or an average annual growth factor of 10.4%.

With the acquisition of Sarcee and a successful exploration program at Lloydminister (8 out of 11 wildcats have been successful so far in 1964), Husky's reserves will show a substantial increase during 1964.

Production

During the early stages of growth, refining and marketing provided the cash earnings for exploration and development, but since 1958, this trend has been reversed and by 1963 production accounted for 71% of Husky's total gross profit.

Husky's oil and gas production from 1960 to 1963 with a projection for 1964 is given in Table 3 and is summarized as follows:

Oil and Gas Production (in 000's of barrels and m.c.f!s)

	1960	1961	1962	1963	Projected 1964
Asphaltic crude	1,089	1,021	1,054	1,377	1,900
Light and medium crude	2,077	1,991	2,011	2,280	3,000
Liquid petroleum gas	-	162	280	284	400
Total oil	3,166	3,174	3,345	3,941	5,300
Natural gas	4,174	6,779	9,315	10,219	10,400

Husky's production of oil for the years 1960 to 1962 showed moderate over-all increases and then in 1963 increased substantially due partly to the start-up of the Lloydminster Project and that of other fields. For 1964 and subsequent years Lloydminster's production is expected to show further substantial increases.

Production of natural gas during the three year period increased 145% due to the commencing of production in the Dick Lake and Savanna Creek fields in 1961.

The Lloydminster Project

The National Oil Policy, established in February 1961, reserved the petroleum markets west of the Ottawa River Valley for products refined from Canadian crude. In the three years since the promulgation of this policy, Ontario manufacturers of asphaltic products have been unable to replace Venezuelan asphaltic crude with a Canadian equivalent which will meet the specifications of the Ontario Government.

Husky blends Lloydminster asphaltic crude, which meets the specifications of the Ontario government, with liquid condensates to reduce its viscosity making it possible to move the crude by pipeline into the large Ontario and United States mid-west asphalt markets. During 1963 Husky entered into five year contracts with the British American Oil Company at Clarkson, Ontario and the Murphy Oil Corporation of Superior, Wisconsin, for the sale of 5,000 barrels per day of the Lloydminster blend, with the buyers having first call on an additional 2,000 barrels daily.

To facilitate the deliveries of blended Lloydminster crude to Hardisty, where it is injected into the Interprovincial Pipeline System for transmission to eastern refiners, a wholly-owned subsidiary, Husky Pipeline Ltd., constructed a 72 mile reversible pipeline capable of a maximum daily throughput of 15,000 barrels in either direction. The line running from Lloydminster connecting with the Wainwright field to Hardisty was completed in December, 1963 and the first delivery of blended Lloydminster crude under contract was made in December, 1963. To date in 1964 deliveries of blended crude have averaged in excess of 6,600 barrels daily.

The initial contract volume of 5,000 barrels daily is the minimum amount required to make the project economic and Husky is confident that a ready market exists for all the Lloydminster crude which can be produced. The Lloydminster field has had a downward production trend since 1956 due to a decreasing demand for bunker fuel oil from the railways and production averaged only 3,500 barrels daily in 1962. The development of the eastern markets has reactivated all the producers in the area and Husky, which owns approximately 50% of the field's production, is actively engaged in developing substantial new productions.

As part of the overall Lloydminster project, Husky purchased in 1963 a 50% interest in the Wainwright field and has under 5 year contract an additional 40% of this field's production. Wainwright crude, which is of lighter gravity, is being refined at the Lloydminster refinery in order to obtain a larger percentage of higher priced light-end products without reducing asphalt quality or volume and making more Lloydminster crude available for pipeline sales.

During 1963 Husky invested approximately $10,000,000 in its over-all Lloydminster project, including pipeline construction, purchase of production, exploration, development, a field gathering system and refinery modifications. This project is expected to result in its production of Canadian asphaltic crude increasing to approximately 1,065,000 barrels in 1964, as compared with 572,000 barrels in 1963. Combined with the growth in production volume is a substantial improvement in the gross profit per barrel as a result of higher contract prices and lower lifting costs.

Refining

Husky's refining position today is stronger than it has ever been due to modernization programs which have been carried out during the last four years.

The Company owns and operates three refineries located at Cody, Wyoming, Lloydminster, Alberta and Moose Jaw, Saskatchewan, with rated daily capacities of 9,000 barrels, 5,400 barrels and 3,200 barrels respectively. During 1963 these three refineries had a total throughput of 5,095,000 barrels or approximately 82% of their stream day capacity.

In 1960, Husky installed in its Cody refinery a larger crude unit, a fluid catalytic cracker and an alkylation unit which increased its capacity to 9,000 barrels daily and enabled it to achieve a higher percentage of light-end products in processing local crude.

In February of this year, Husky closed down its 3,800 barrel per day Fort William, Ontario refinery and transferred certain of its equipment to the Lloydminster refinery. The transfer of this equipment has made it possible to modernize the Lloydminster refinery and convert it to process Wainwright crude and this is expected to add approximately $500,000 annually to Husky's cash flow.

Marketing

Husky's sales volume increased from 5,811,000 barrels in 1960 to 7,045,000 barrels in 1963, an average annual growth factor of 6.6%. Husky's marketing sales by products are outlined in Table 4 and are summarized as follows:

Marketing Sales in 000's Barrels

	1960	1961	1962	1963
Light-end products	2,862	2,938	3,318	3,594
Asphalt products and heavy fuel oils	2,949	2,938	2,994	3,451
Total	5,811	5,876	6,312	7,045

Light-end products' sales increased at an average annual rate of 7.8% from 1960 to 1963 and gasoline sales during this period increased 5.1% annually. This increase in light-end sales can be attributed to Husky's expansion of marketing outlets from 524 in 1960 to 609 as at December 31, 1963, located through western Canada and north-western United States.

Husky's marketing policy is to acquire large highway outlets at selected points throughout its marketing area rather than concentrate in urban areas and this has limited to some extent the effects of price wars. Husky's sales through its owned or controlled retail outlets have increased from 41% of total marketing sales in 1960 to 67% in 1963.

The asphalt and heavy fuel oil markets over the past few years have been very competitive and profit margins have been declining, but in spite of this, two factors have resulted in a degree of stability returning to these markets. First, the technological development of fluid catalytic cracking and hydrogen treating has enabled refiners to achieve a much higher proportion of light-end products from the processing of medium and heavy crudes, thus reducing heavy ends available for markets and establishing better markets for cracking stocks. Second, most of the small refiners who entered the field in the 1950's are no longer in production.

Husky is one of the largest producers of asphalt products between the Rock Mountains and the Great Lakes in both Canada and the northern United States. The diversified asphalt products marketed by Husky include paving, roofing and industrial asphalts and a wide variety of specialty products such as pipeline enamels, coal sprays, sewer seals, canal linings, thermoplastics and acid resisting coatings.

The near term outlook for the marketing department appears favourable and Husky is planning to expand its retail and wholesale stations. Sales of asphalt products in 1964 are expected to decline slightly from 1963 due to the sale in 1963 of inventories acquired in the purchase of two other refineries and the closing of the Fort William refinery. After 1964 we project that asphalt sales will show moderate growth.

Other Interests

Husky, over the years, has acquired interests in various enterprises, both associated and unassociated with the oil industry. A few of these enterprises have reached a level where their operations could add significant potential to Husky's future gross profit and net earnings.

Rimrock Tidelands, Inc.

Husky owns 935,171 common shares, equivalent to a 61% interest in Rimrock Tidelands, Inc. Rimrock is engaged in both onshore and offshore contract drilling, oil and gas production, and the joint exploration of a large tract of acreage in Tunisia. Rimrock is placing the emphasis on offshore contract drilling for which there is a good demand on a profitable basis. Rimrock now has three offshore drilling rigs which are working under contract with other companies in the Gulf of Mexico. As profitability continues to improve Rimrock may purchase additional offshore units.

As at December 31, 1963, Rimrock held a 27 1/2% interest in 3,180,000 acres of exploration permits in Tunisia and Tunisian Husky Oil held the same interest in a further 4,748,000 acres. In August, 1964, the two companies negotiated a farm-out of half their interest in the Tunisia properties whereby they are not required to make any further expenditures on these properties until approximately $7,200,000 has been spent on the total program by the other partner. After this amount has been spent, the farmee will receive a one-half interest in the Husky properties.

Rimrock's revenues and net earnings for the years ended December 31, 1961 to 1963, with a projection for 1964 are as follows:

Years ended Dec. 31	1961	1962	1963	Projected 1964
Revenues	$4,112,000	$3,514,000	$4,496,000	$5,200,000
Net profit	147,000	7,000	364,000	500,000
Per Rimrock share	0.10	0.00	0.23	0.33

Bannock Steel Corporation

Husky owns a 50% interest in Bannock Steel Corporation which is engaged in the warehousing and fabricating of steel products in Idaho and Nebraska. During 1963 Husky sold its 99% interest in Gate City Steel, Inc. of Omaha to Bannock. Combined sales and net profit for these two operations over the past two years has been as follows:

Years ended December 31	1962	1963
Sales	$14,984,000	$15,846,000
Net profit	$ 44,000	$ 280,000

Briquetting

A subsidiary is engaged in production of lignite briquettes for barbecue and industrial heating. Production difficulties have affected this operation since it commenced production in 1961 and it has consistently shown a loss over the past three years. However demand for its barbecue briquette is good and Husky expects to swing this operation into a profitable position in the near future.

Evaluation of Assets

Having examined Husky's operations, we turn to an evaluation of its earnings assets. According to our estimates its assets have a value equivalent to slightly over $16.70 per share, on the following basis:

1. Working Capital as at December 31, 1963 amounted to $12,578,000.

2. Production

Husky's net book value of developed oil and gas properties was $26,715,000 or only 29¢ per barrel of proven oil and gas reserves. The present worth of future income from its proven reserves, as prepared by Lewis Engineering, discounted at 8%, is $61,333,000 equivalent to 66¢ per barrel of proven oil and equivalent barrels of gas reserves, which amounted to 92,794,400 barrels as at January 1, 1964. Placing a value of 50% and 25% of this per barrel value on its probable and possible reserves respectively, the estimated value of its reserves is as follows:

Proven reserves	92,794,000 bbls. at 66¢/bbl.	$61,333,000
Probable reserves	27,678,000 bbls. at 33¢/bbl.	9,133,000
Possible reserves	8,350,000 bbls. at 16.5¢/bbl.	1,377,000
Total estimated value		$71,843,000

The estimated present day worth of its oil and gas reserves of $71,843,000 is 2.7 times the net book value of such reserves.

3. Undeveloped Acreage

As at December 31, 1963 Husky had an interest of 1,499,000 net undeveloped lease acres in Canada and the United States which were carried at a net book value of $3,705,000 or $2.47 per lease acre. After deducting certain lease acres to be surrendered in 1964, we have applied an average value of $5 per lease acre giving a total value of $5,495,000.

In 1963, which was the first year of combined operations for Bannock and Gate City, sales showed a 12.4% increase and the net profit of $280,000 compared with a profit of $44,000 in 1962. For 1964 we project sales should increase 14% to approximately the $18,000,000 level with a net profit of about $650,000. The projected net profit margin of 3.6% for 1964 is substantially higher than the 1.81% net profit margin for 1963, but this increase can be reasonably expected as Gate City's operations have now been fully consolidated and operating expenses reduced.

Phosphate Project

In October of 1961, Husky and International Minerals and Chemical Corp. announced an agreement for the possible development of certain phosphate properties owned by Husky and located near Soda Springs, Idaho. International Minerals has until May of 1966 in which to submit a proposal for the development of the property, at which time Husky may elect either to take a 40% interest in the development or sell its interest to International Minerals for $3,000,000 plus half of the appraised value of the property in excess of $3,000,000.

International Minerals' economic studies are not expected to be ready until early 1965, but preliminary reports indicate this development could add substantially to Husky's profit by the end of this decade.

Pipeline Interests

Husky has varying interests in three pipelines, namely the Yellowstone Pipeline Company, the Peace River Oil Pipe Line Co. Ltd. and the Rimbey Pipe Line Co. Ltd. Each of these three companies has had good growth in throughput, revenues and net earnings over the past few years and their outlook is very favourable, especially for the Peace River Oil Pipe Line which serves the north-eastern Alberta area where numerous significant discoveries have been made over the past year. Husky's investment in these three companies as at December 31, 1963 stood at $451,000 and Husky's portion of the earnings of these pipelines in 1963 amounted to $96,500, on which dividends aggregating $49,800 were received.

A wholly-owned subsidiary, Husky Pipelines Ltd., owns the Lloydminster-Hardisty pipeline. As at December 31, 1963 Husky's investment in this pipeline amounted to $4,633,000 and the projected net profit for this pipeline in 1964 is $300,000.

Husky also has an option to purchase on April 1, 1966 the Shoshone pipeline, which connects its Cody refinery with the Yellowstone pipeline at Billings, Montana some 96 miles away. The current annual rental paid by Husky for the use of this line is $766,000, and the purchase of this line could add as much as $500,000 annually to Husky's gross profit after operating costs.

4. Refining-Marketing

Husky's refining assets had a net book value of $8,653,000 and its marketing assets, including Husky Leasebacks Limited, had a book value of $10,084,000. Husky's cost of acquiring and constructing new marketing outlets averages approximately 35¢ per gallon of each new outlets' annual sales. Attributing an additional value of 5¢ per gallon for trademarks and goodwill, the estimated value of its marketing operations, if they were to be sold, is 40¢ per gallon of annual controlled light-end sales. For the less profitable "unbranded", Company accounts and jet fuel sales we have placed a value of 10¢ per gallon. On the above basis the estimated value of its marketing assets is as follows:

Controlled light-end sales	70,000,000 gal. at 40¢/gal.	$28,000,000
Other light-end sales	43,000,000 gal. at 10¢/gal.	4,300,000
Total value		$32,300,000

From the estimated value of $32,300,000 must be deducted the debt of Husky Leaseback Limited, which amounted as at December 31, 1963 to $4,825,000, giving a net estimated marketing value of $27,475,000. As the refining assets are all part of its marketing operations we have simply used the net book value for refining assets, placing the total estimated value of its Refining-Marketing assets at $36,128,000.

5. Investments

(a) Bannock Steel Corporation: Husky's equity investment in Bannock Steel amounted to $1,497,302 and on the basis of 10 times Husky's share of its 1964 projected net profit of $650,000, we have placed a value of $3,250,000 on this investment.

(b) Phosphate Property: The phosphate property is carried at a book value of $168,419. However its minimum sale price is $3,000,000, which amount has been already received by the Company and in our evaluation we have simply cancelled the $3 million non-interest note payable by Husky.

(c) Pipelines: Husky's investment in shares of the Yellowstone, Rimbey and Peace River pipelines was carried at an aggregate cost of $451,000. The net earnings in 1963 attributable to Husky's holding in these pipelines was $96,000 and the dividends received amounted to $49,800. These three pipelines have had and hold above average growth potential and in placing a value on these investments we have employed a 15 times earnings ratio which gives an estimated value of $1,447,500.

Husky's investment in the Lloydminster-Hardisty pipeline amounted to $4,633,000 as at December 31, 1963 and the projected net profit for this line is $300,000 in 1964. Over the next few years the profit for this pipeline is projected to increase substantially and for purposes of evaluation we have taken a 20 times 1964 net profit factor. Employing the 20 times earnings factor its estimated value is $6,000,000.

(d) Rangely Gas Plant: Husky's Rangely Gas plant was carried at a net book value of $77,000 and the pre-tax profit from this plant in 1963 amounted to $90,000. Assuming an 8% return we have placed a value on this asset of $1,100,000.

(e) Briquetting: The net book value of its briquetting assets was $1,509,000 and for purposes of this evaluation we have employed this figure.

The total estimated value of its various investments is $3,306,000.

6. Other Assets

All of Husky's other assets for evaluation purposes have been taken at their net book value aggregating $12,224,000.

On the basis of the foregoing, Husky's estimated asset value is as follows:

Husky Oil Canada Ltd.

Asset Evaluation

1. Working capital		$ 12,578,000
2. Production - reserves		71,843,000
3. Undeveloped acreage		5,495,000
4. Refining-Marketing		36,128,000
5. Investments		13,306,000
6. Other assets		12,224,000
Total		$151,574,000
Less: Funded debt	$35,501,000	
Minority interest	9,210,000	
Preferred shares	3,568,000	48,279,000
Net estimated value attributable to Husky's common shares		$103,295,000
Per 6,178,693 common shares outstanding		$16.71

The above estimated value per common share of $16.71 is 4.2 times the net book value per common share of $3.92 and at its current market price of $10.25 the shares are trading at a 39% discount from their estimated value.

Balance Sheet Analysis

A review of Husky's condensed consolidated balance sheets for the years 1960 to 1963 (see Table 6) indicates the growth which took place during 1963.

For the four years ended 1963 Husky's working capital position and working capital ratio varied with the level of business.

As at Dec. 31	1960	1961	1962	1963
Working capital ('000)	$ 8,924	$11,851	$11,069	$12,578
Working capital ratio	1.7	2.1	2.0	2.2

As at December 31, 1963 its working capital position showed good strength, particularly in the amount of cash on hand, and its bank borrowings declined to the point where they had been paid off during 1963. Husky presently has a stand-by bank line of credit of $8,000,000.

The net book value of fixed assets increased 16.1% during 1963. The cost of its fixed assets stood at $88,341,313 with an accumulated depreciation and depletion of $32,914,092. The annual depreciation and depletion charges as a percent of the average net book value of fixed assets (average of two year ends) over the past four years were as follows:

Year	1960	1961	1962	1963
Average net fixed assets ('000)	$48,122	$49,406	$48,234	$51,588
Depreciation & depletion	4,361	4,586	4,257	5,072
As % of book value	9.1%	9.3%	8.8%	9.8%

Depreciation and depletion as a percentage of net fixed assets averaged 9.3% during the four year period. Other assets amounting to $1,143,000 as at December 31, 1963 were comprised of patents, trademarks and goodwill.

Husky's capital structure as at June 30, 1964, after giving effect to the issuance of 200,000 preferred shares on June 30, 1964, presents a high leverage factor on its common shares.

Long term debt	$42,131,594	46.6%
Minority interest	8,903,740	9.8
Preferred shares	13,568,150	15.0
Common shares & surplus	25,849,576	28.6
	$90,453,060	100.0%

The Company has been unwilling to issue common shares since 1957, except for exercise of warrants and options and the exchange for Husky Oil Company shares, because it has been unwilling to dilute shareholders' equity with an issue at the prevailing depressed market conditions. Hence the funds for its large capital expenditures over the past four years have been primarily obtained through production loans and the issuance of preferred shares of both the Company and its U.S. subsidiary Husky Oil Company. If our appraised value of Husky's net worth, amounting to $103,295,000, were employed in evaluating the leverage factor, Husky's common shares and surplus would account for approximately 61% of the total capital structure.

Thus Husky's financial position contains a good deal more strength than is indicated at first glance. In addition to the normal line of funded debt in the form of bonds or debentures and its bank line of credit of $8,000,000, part of Husky's U.S. producing properties and most of these in Canada are available for production loan purposes.

Sarcee Acquisition

On July 8, 1964, Husky made an offer to acquire the 3,468,816 outstanding shares of Sarcee Petroleums Limited at a price of $2.30. Husky has already acquired over 90% of Sarcee's outstanding shares and it is expected that subsequent to November 9, 1964, Sarcee will become a wholly-owned subsidiary. The cost of this acquisition will be approximately $7,980,000.

Sarcee holds a net interest of approximately 100,000 acres of lease permits located in Western Canada and Ontario and has an interest, including royalty interest, in approximately 190 producing oil wells and 20 producing gas wells. Sarcee's cash flow has increased from $625,000 in 1961 to $1,056,000 for the year ended April 30, 1964 and its net profit in this period increased from a loss of $1,000 for 1961 to a profit of $559,000 in 1964. Husky expects that the implementation of secondary work on Sarcee's producing fields will result in a substantial increase in both reserves and overall production.

Earnings

The improvement in Husky's over-all operations since the consolidation in 1960 is indicated by its consolidated earnings statement appearing in Table 5 which is summarized as follows:

Husky Oil Canada Ltd.

Consolidated Statement of Earnings

	$000's			
	1960	1961	1962	1963
Net sales	$38,271	$37,865	$40,708	$45,979
Gross profit	$ 9,167	$ 8,601	$ 9,991	$11,116
Less: General & admin. expenses	2,651	2,349	2,268	2,018
Operating profit	$ 6,516	$ 6,252	$ 7,723	$ 9,098
Add: Other income	221	735	461	484
Less: Depreciation & depletion	4,361	4,586	4,257	5,071
Interest	1,580	1,792	1,550	1,683
Exploration expenses	2,916	1,230	1,696	-
Profit (loss) before taxes, minority interest and special credits	($ 2,120)	($ 621)	$ 681	$ 2,828
Income taxes of subsidiary, minority interest and special-credits	41	468	555	595
Net profit (loss)	($ 2,161)	($ 1,089)	$ 126	$ 2,233
Preferred dividends	214	214	214	214
Common share earnings	($ 2,375)	($ 1,303)	($ 88)	$ 2,019
Per 6,178,693 common shares presently outstanding	(38¢)	(21¢)	(1¢)	33¢

From a loss of $2,375,000 or 38¢ per share in 1960 Husky's earnings have increased to a profit of $2,019,000 or 33¢ per share in 1963. The 1963 net profit includes $1,365,000 which was due to the changing of its method of accounting for exploration and intangible development expenses.

Change in Accounting of Exploration Expenses

Husky now capitalizes the total costs associated with finding oil and gas including all leasing, acquisitions, carrying charges, drilling, geological and other costs, so as to reflect its accomplishments in more positive terms. As oil and gas is produced, the capitalized value of such acquisitions is charged with an appropriate amount of depletion computed on an over-all unit of production basis. At the end of each year the total book value of oil and gas properties is divided by proven developed reserves,thus obtaining an average value per barrel. The annual production is multiplied by the calculated value per barrel and the resultant figure is the depletion allowance for the year. All expenditures outside Canada and the United States will be written off as incurred until such time as oil or gas is discovered. In the United States a somewhat similar method has been used by such companies as Pure Oil, Tennessee Gas Transmission, Ambassador Oil, Crescent Petroleum and others.

The effect of the change in accounting for exploration and intangible development expenses in 1963 was to increase its net earnings by $1,365,000. Even without this accounting change, Husky's net profit would have been approximately $900,000 higher than the 1962 net profit. In real terms its operations have resulted in earnings improving by approximately $1,000,000 in each of the past three years.

Estimated Earnings

In estimating earnings for 1964, rather than working from a sales figure, we have started our estimate with the gross profit from each of the various departments. As previously outlined in this report,production of oil is expected to increase 35% during 1964 and the profitability for asphaltic crude is expected to show a substantial increase. We have therefore employed a 30% growth factor for the gross profit from its production department in our 1964 estimate. Despite the loss of sales revenues due to the closing down of the Fort William refinery, we are estimating that the refining and marketing departments' gross profit will approximate $2,400,000, a slight increase of about 0.7%. We have assumed that the growth for the contract drilling, pipelines and other departments will be approximately 54% which appears in line with their favourable outlook as outlined in this report.

Husky Oil Canada Ltd.

Estimated Earnings

	Actual 1963	Estimated 1964	% Increase
Gross profit ($'000)			
Production	$ 7,883	$10,248	30.0%
Refining-Marketing	2,384	2,400	0.7%
Other departments	857	1,317	53.7%
Total gross profit	$11,124	$13,965	25.5%

Since the consolidation in 1960, general and administrative expenses have declined at an average rate of 8.7%, but with the acquisition of Sarcee and the development of the Lloydminster project we estimate that general and administrative expenses for 1964 will approximate $2,422,000, an increase of 20% over the 1963 figure.

Interest costs will increase in 1964, due to the funds borrowed during 1963 to finance the Lloydminster project and we estimated that they will total approximately $2,000,000 or a 19% increase over the 1963 figure of $1,683,000.

Depreciation and depletion is projected to increase by approximately $1,000,000 or 20% to $6,072,000 in 1964, reflecting in part the large capital expenditures incurred in 1963 and 1964 and in part the new method of accounting for exploration and intangible development expenses.

Minority interests and income taxes of subsidiary companies are projected to show slight increases during 1964. As at December 31, 1963 in the United States Husky had a tax loss carried forward amounting to approximately $3,000,000 and in Canada it had a tax loss of over $10,000,000. This tax loss, together with the charging of exploration and development expenses to earnings for tax purposes, is projected to result in no appreciable income taxes being payable by the Company over the next few years.

On June 30, 1964 Husky issued 200,000 preferred shares bringing its annual preferred dividends to approximately $814,000. The major portion of the proceeds from this issue will be used in the acquisition of Sarcee Petroleums Limited, which had a net profit for the year ended April 30, 1964 of $559,000. Accordingly we have assumed in projecting the earnings per share of Husky that the earnings from Sarcee in the future will equal its annual dividends on the additional 200,000 preferred shares and hence the amount employed for preferred dividends is $214,000.

Based on the foregoing factors and assuming that its presently outstanding 6,178,693 common shares will increase at an annual rate of 100,000 common shares due to the exercise of warrants and stock options, the estimated earnings per share for 1964 is $0.50 and the projected cash flow (net profit plus depreciation and depletion) per share is $1.46.

Husky Oil Canada Ltd.

Estimated Earnings for 1964 with Actual for 1963

($'000)

	1963	Est. 1964
Gross profit	$ 11,124	$ 13,965
Less: General and administrative expenses	2,018	2,422
Operating profit	$ 9,106	$ 11,543
Add: Other income	484	484
Less: Interest	1,683	2,000
Depreciation and depletion	5,071	6,072
Profit before income taxes, minority interest and special credits	$ 2,836	$ 3,955
Less: Minority interest	569	628
Income tax of subsidiaries	34	40
Net profit	$ 2,233	$ 3,287
Less: Preferred dividend	214	214
Net available to common shareholders	$ 2,019	$ 3,073
Shares outstanding '000	6,169	6,179
Earnings per share	33¢	50¢

The estimated earnings for 1964 of $3,073,000 represent another increase of approximately $1,000,000, which has been the average annual increase for over the last three years. In projecting earnings for the next few years it is expected that net profit will show further increases in the order of $1,000,000 annually.

	Actual	Estimated	Projected	
	1963	1964	1965	1966
Net earnings available to common shareholders $'000	$2,019	$3,073	$4,100	$5,100
Shares outstanding '000	6,169	6,179	6,300	6,400
Earnings per share	33¢	50¢	65¢	80¢

Source and Application of Funds

Table 7 outlines the capital expenditures for the years 1960 to 1963 with an estimate for 1964 and Table 8 gives the source and application of funds from 1961 to an estimate for 1964. Expenditures for 1964 are expected to exceed the funds generated by approximately $8.6 million and while this amount could be carried by its current working capital position, it will in all likelihood result in approximately $10 million of additional funds being raised during the latter half of 1964 or early 1965.

Dividends

Husky has never paid a common stock dividend and the large current capital expenditures will require most of the funds generated from operations. However, the continuation of rising earnings should lead to early consideration of the payment of dividends.

Market Action

The common shares are listed on the Toronto, Montreal and American stock exchanges.

	High	Low	Volume	Average daily volume
1959	$14.75	$7.60	513,722 shs.	2,038 shs.
1960	8.50	3.95	847,656	3,364
1961	7.75	4.40	2,020,630	8,018
1962	8.50	4.50	2,892,638	11,479
1963	7.375	5.50	1,146,970	4,551
7 mos. 1964	10.625	6.125	1,391,283	9,938

The monthly high, low and volume since January 1955 is outlined in the chart at the end of this report. From this it is seen that Husky's common shares were carried to a high of $23 in the active oil market of 1957 and they declined well above the industry average to a low of $3.95 in the summer of 1960. The shares had been trading primarily in the $5 to $7 level over the past three years and in March of this year, with the improvement in its operations and earnings gaining wider public knowledge, the shares moved up rapidly with good volume to a high of $10 5/8 early in September and are now trading at the $10 1/4 level.

From the chart it will be noted that in breaking through the $10 level the shares moved into a trading area which was the resistance point in the declining market action of these shares from 1957 to 1959. However, technically the outlook is still favourable as the upward trend continues, as can be seen from the weekly chart also shown at the end of this report.

Comment

Husky has undergone considerable change since the consolidation in 1960, which has resulted in earnings showing continual annual increases during the past three years. Husky's reported net profit, due to the change in accounting methods, now reflects its operations in more positive terms and the large capital expenditures on its Lloydminster Project and other areas of operations should enable the continuation of its rising earnings trend over the next few years.

Husky's fundamental asset value, its future earnings prospects and the possibility of a dividend in the future, we believe, make its shares an attractive investment. At $10 1/4 they are trading at 20.9 times our estimated earnings per share for 1964 and at only 7.0 times the 1964 projected cash flow per share.

At its current level, we believe Husky offers an interesting special situation, containing good capital gains potential over the medium term and we recommend its purchase.

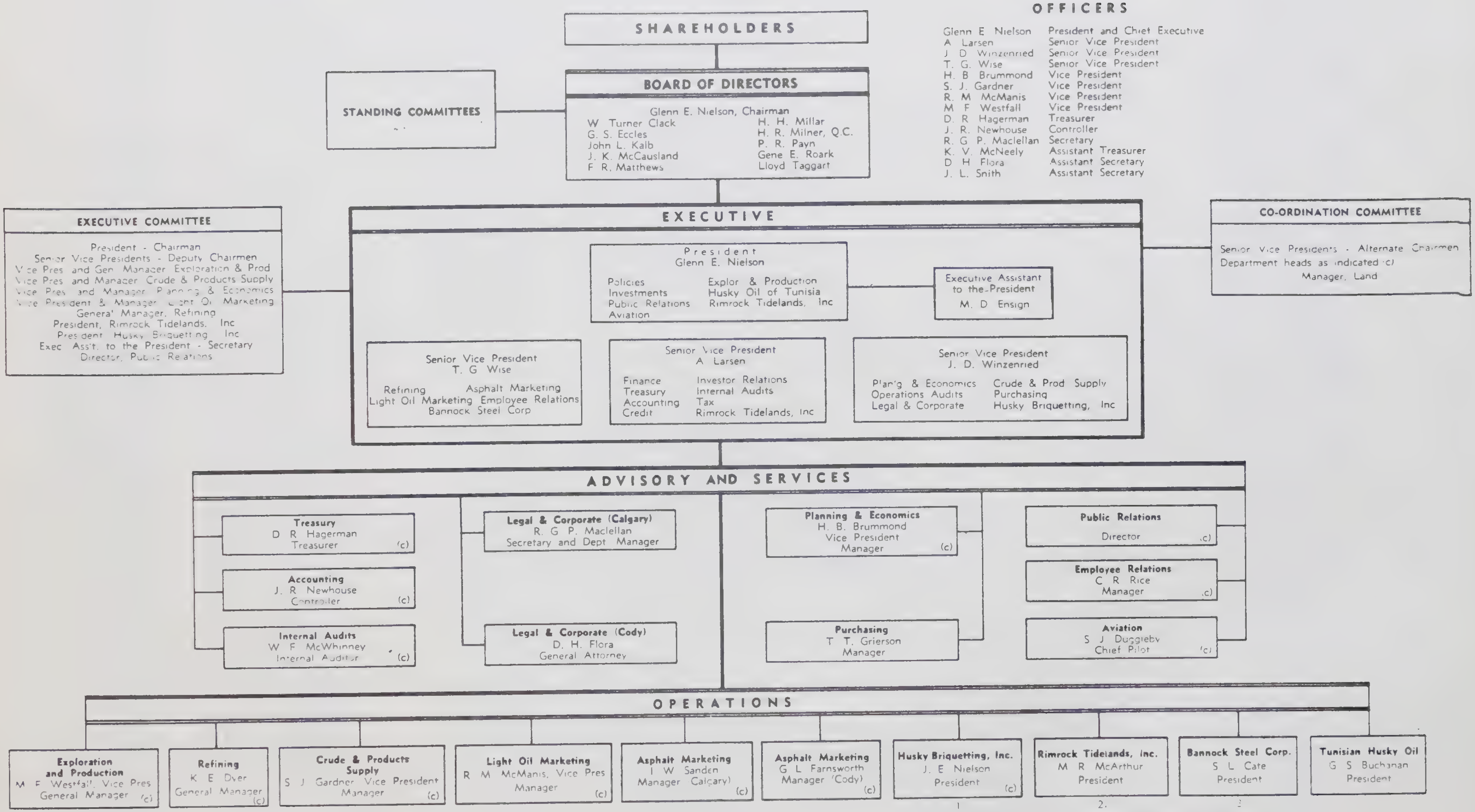
Montreal
Sept. 17, 1964 H.H.T.

Table 1

HUSKY OIL CANADA LTD.

BASIC ORGANIZATION CHART

April 29, 1964



Husky Oil Representatives on Boards of Subsidiary Companies

1) Husky Briquetting, Inc.
J D Winzenried Senior representative
T G Wise

2) Rimrock Tidelands, Inc
A Larsen Senior representative
J D Winzenried

3) Bannock Steel Corp
T G Wise Senior representative
A Larsen

Table 2

HUSKY OIL CANADA LTD.

Acreage Holdings, Exploration and Development Statistics

	1960	1961	1962	1963
1. **Acreage Holdings (000's)**				
Gross acres				
Canada	4,559	4,958	4,098	5,362
U.S.A.	1,115	632	1,019	794
Foreign	3,975	8,723	8,723	7,928
	9,649	14,313	13,840	14,084
Net acres				
Canada	1,352	1,879	1,306	1,233
U.S.A.	567	527	309	266
Foreign	3,975	6,736	4,362	2,180
	5,894	9,142	5,977	3,679
2. **Exploration and Development**				
Number of wells drilled (gross)				
Exploratory	30	23	27	27
Development	24	37	8	93
	54	60	35	120
Successful wells completed (gross)				
Exploratory	8	9	10	8
Development	16	31	7	78
	24	40	17	86

Table 3

HUSKY OIL CANADA LTD

Oil and Gas Production for 1960 to 1963 with estimate for 1964

(in 000's of Barrels and M. C. F's)

Years ended December 31	1960	1961	1962	1963	Est. 1964
OIL					
Asphaltic Crude					
Canada	372	296	299	572	1,065
U.S.A.	717	725	755	805	835
	1,089	1,021	1,054	1,377	1,900
Light and Medium Crude					
Canada	403	443	641	875	1,365
U.S.A.	1,389	1,404	1,302	1,259	1,495
Other (Rimrock)	285	144	68	146	150
	2,077	1,991	2,011	2,280	3,010
Liquid Petroluem Gas					
Canada	-	162	280	284	401
Total Oil	3,166	3,174	3,346	3,941	5,311
GAS					
Canada	1,107	3,314	6,085	7,080	7,060
U.S.A	2,408	3,051	3,166	3,128	3,304
Other (Rimrock)	659	414	64	11	-
	4,174	6,779	9,315	10,219	10,364

Table 4

HUSKY OIL CANADA LTD

Refining and Marketing Statistics for 1960 to 1963 with estimate for 1964

(in 000's of Barrels)

Year ended December 31.	1960	1961	1962	1963	Est. 1964
Refinery Throughput					
Cody	1,997	3,240	3,422	3,418	3,531
Lloydminster	897	753	700	760	1,377
Moose Jaw	1,047	786	925	917	874
Fort William	1,169	1,206	1,242	1,206	180
	5,110	5,985	6,289	6,301	5,962
Marketing Sales					
Gasolines	1,578	1,577	1,733	1,838	1,862
Distillates	1,284	1,257	1,139	1,181	1,143
Jet fuel	-	32	354	482	300
Residuals	1,184	1,497	1,354	1,384	1,089
Asphalt	1,765	1,441	1,640	2,067	1,823
L.P.G's	-	72	92	93	117
	5,811	5,876	6,312	7,015	6,331
Number of Marketing Outlets					
Retail					
Canada	n.a.	150	176	215	252
U.S.A.	n.a.	233	220	244	280
	368	383	396	459	532
Wholesale					
Canada	n.a.	65	58	63	65
U.S.A.	n.a.	91	89	87	87
	156	156	147	150	152
	524	539	543	609	684

Table 5

HUSKY OIL CANADA LTD.

Consolidated Earnings Statement

$'000

Years ended December 31.	1960	1961	1962	1963
Net sales	$38,271	$37,865	$40,708	$45,979
Cost of goods sold	29,104	29,264	30,717	34,863
Gross profit	9,167	8,601	9,991	11,116
General and admin. expenses	2,651	2,349	2,268	2,018
Operating profit	$ 6,516	$ 6,252	$ 7,723	$ 9,098
Other income	221	735	461	484
Less: Depreciation	3,374	3,700	3,389	3,583
Depletion	987	886	868	1,488
Interest	1,580	1,792	1,550	1,683
Exploration expenses	2,916	1,230	1,696	-
Profit before income taxes and minority interest	$(2,120)	$ (621)	$ 681	$ 2,828
Income taxes of subsidiaries	18	29	26	34
Minority interest	(39)	461	396	569
Special credit (Gate City Steel)	(62)	22	(133)	8
Net profit (loss)	($ 2,161)	($ 1,089)	$ 126	$ 2,233
Preferred dividend	214	214	214	214
Common share earnings (loss)	($ 2,375)	($ 1,303)	($ 88)	$ 2,019
Cash flow	$ 4,902	$ 4,513	$ 5,865	$ 7,090
Per share on presently outstanding shares				
Earnings	$ (38¢)	$ (21¢)	$ (01¢)	$ 33¢
Cash flow	$ 0.80	$ 0.74	$ 0.95	$ 1.15

Table 6

HUSKY OIL CANADA LTD.

Condensed Consolidated Balance Sheet

('000 omitted)

As at December 31.	1960	1961	1962	1963
ASSETS				
Current assets				
Cash	$ 4,654	$ 4,509	$ 2,356	$ 5,786
Notes and accounts receivables (net)	7,654	8,334	9,485	8,646
Inventories	8,341	8,907	9,531	7,867
Prepaid expenses	694	898	782	611
	$21,343	$22,648	$22,154	$22,910
Non-Current assets				
Notes and contracts receivables	1,946	2,320	2,078	6,076
Sundry investments	3,413	3,474	3,169	2,672
	$ 5,359	$ 5,794	$ 5,247	$ 8,748
Fixed assets net				
Developed oil and gas properties	20,640	18,954	20,882	26,792
Refining and marketing facilities	21,263	20,333	17,442	22,070
Drilling rigs and equipment	4,378	4,455	4,245	2,692
Undeveloped oil and gas properties	3,814	4,975	5,181	3,873
	$50,095	$48,717	$47,750	$55,427
Other assets	2,095	2,108	1,885	1,143
	$78,892	$79,267	$77,036	$88,228
LIABILITIES				
Current liabilities				
Notes payable to bank	$ 3,101	$ 2,352	$ 1,300	$ -
Accounts payable	5,586	5,397	5,351	6,949
Current portion long term debt	4,732	3,048	4,434	3,383
	$12,419	$10,797	$11,085	$10,332
Long term debt	29,686	28,295	26,136	35,501
Deferred income	-	-	-	1,260
Note payable	3,000	3,000	3,000	3,000
Shareholders' equity				
Minority interest	7,625	9,137	8,705	9,210
Husky shareholders	26,162	28,038	28,110	28,925
	$78,892	$79,267	$77,036	$88,228

Table 7

HUSKY OIL CANADA LTD.

Summary of Capital Expenditures

($'000)

	1960	1961	1962	1963	1964 Est.)
Departmental Capital Expenditures					
Exploration	$ 2,256	$ 1,691	$ 2,371	$ 1,478	$ 650
Development	2,388	1,268	2,521	1,753	2,000
Marketing	1,088	1,294	844	2,503	2,390
Refining	5,905	310	118	344	250
Contract Drilling (Rimrock)	137	207	293	625	700
Briquetting	149	628	69	708	75
Other	164	64	115	608	350
	$12,087	$ 5,462	$ 6,331	$ 8,019	$ 6,415
Special Projects					
Lloydminister	-	-	-	$10,023	$ 4,300
Drilling Barge					2,000
Shell Service Stations					700
Sarcee Petroleums Ltd.					8,000
Ralston (WYO) Gas Plant					850
Other investments	152	1,772	223	1,141	-
Total capital expenditures	$12,239	$ 7,234	$ 6,554	$19,193	$22,265

Table 8

HUSKY OIL CANADA LTD.

Source and Application of Funds

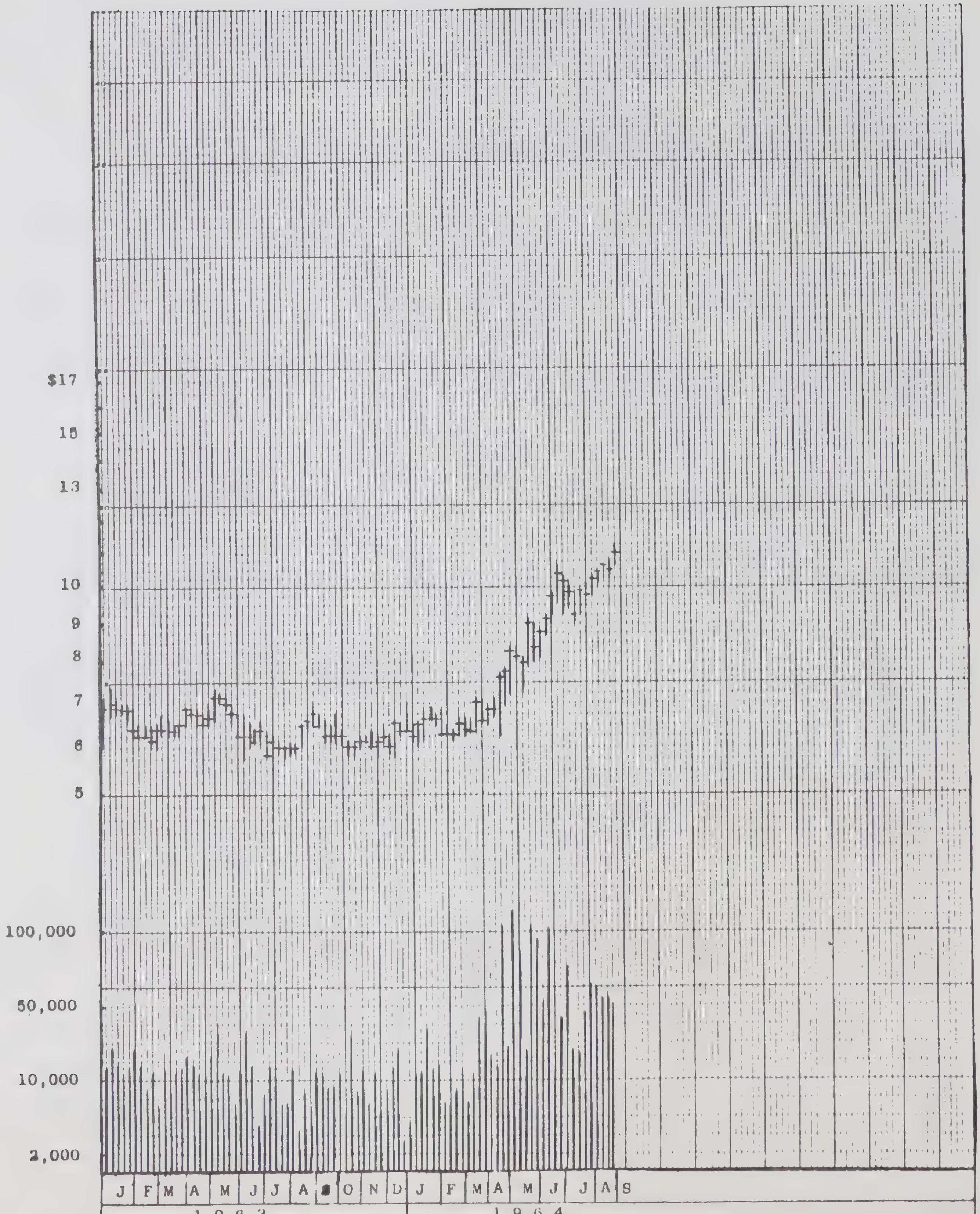
$'millions

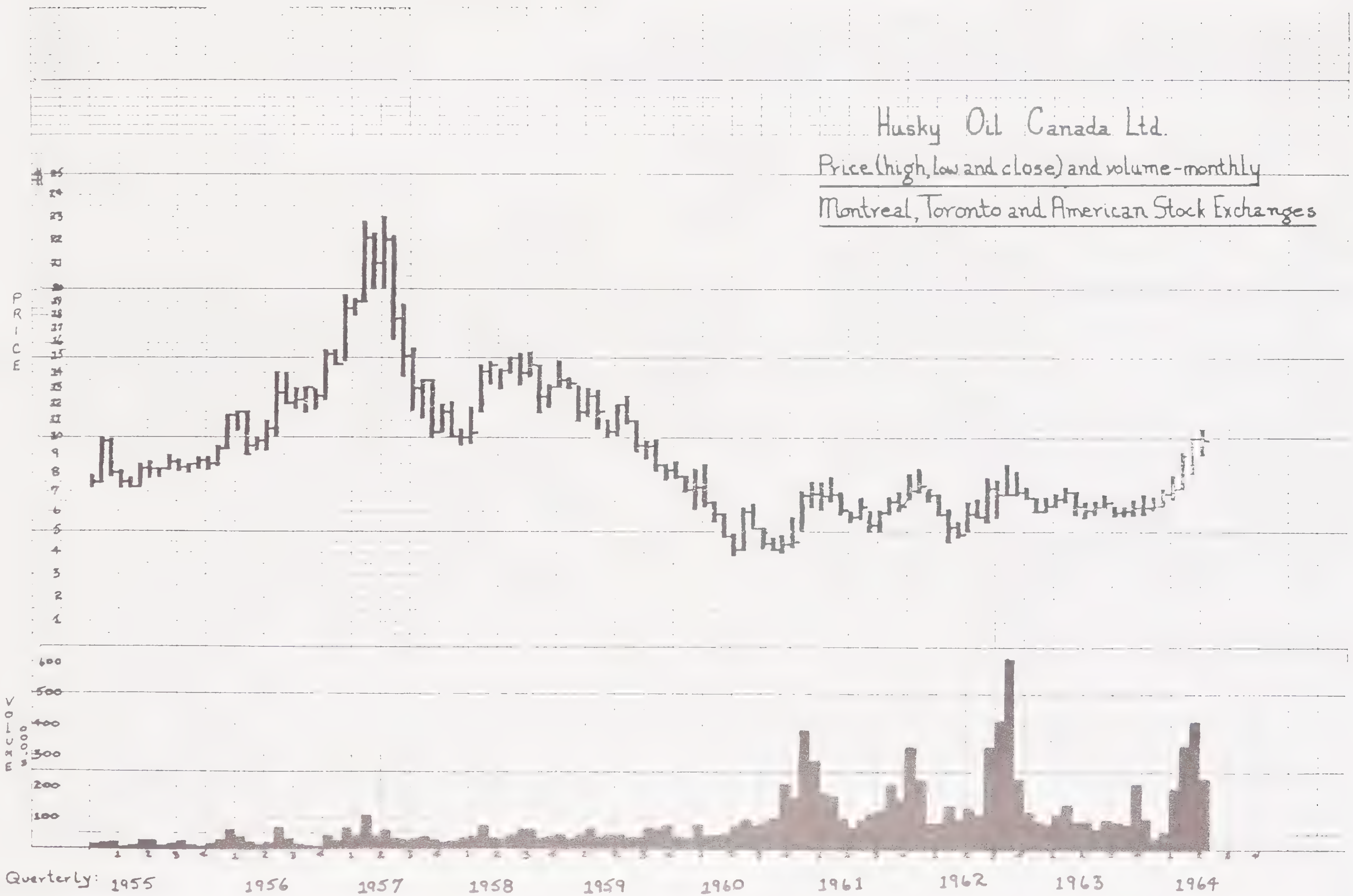
	1961	1962	1963	Est 1964
Source of Funds				
Operating profit after all cash charges	$ 4.5	$ 6.2	$ 7.2	$ 9.4
Proceeds from financing	6.7	5.0	30.2	11.9
Sales of Rimrock production	1.7	-	-	-
Other	1.2	(0.4)	(1.2)	0.4
Total	$14.1	$10.8	$36.2	$21.7
Application of Funds				
Capital expenditures	$ 7.2	$ 6.5	$19.1	$22.3
Debt and preferred retirement	3.7	4.9	15.4	5.1
Preferred dividends	0.2	0.2	0.2	0.5
1963 Expenditures carried over	-	-	-	2.4
Total	$11.1	$11.6	$34.7	$30.3
Increase (decrease) in working capital	3.0	(0.8)	1.5	(8.6)
Total	$14.1	$10.8	$36.2	$21.7
Working capital as at December 31	$12.0	$11.2	$12.7	$ 4.1

HUSKY OIL CANADA LTD.

Price (high, low and close) and Volume - Weekly

Toronto and Montreal Stock Exchanges




Husky Oil Canada Ltd.
Price (high, low and close) and volume - monthly
Montreal, Toronto and American Stock Exchanges
PRICE
VOLUME 000's
Quarterly:
1955
1956
1957
1958
1959
1960
1961
1962
1963
1964

An Address to

THE OIL ANALYSTS GROUP OF NEW YORK

by

Glenn E. Nielson

PRESIDENT

HUSKY OIL

Canada Ltd.

NEW YORK, N.Y. FEBRUARY 25, 1965

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PRESIDENT

HUSKY OIL

Canada Ltd.

NEW YORK, N.Y.

FEBRUARY 25, 1965

At the time of our Saviour, the population of the world was about 250 million people. Sixteen hundred years later it reached 500 million, but only about 200 years elapsed before it doubled the next time. Now, it is expected that the present world population of three billion will double before the end of this century. It is difficult to envision all the changes that will be necessary, even in our great productive country, to just feed, clothe, educate and provide for another 190 million people in 35 short years.

Thirty-five years is only a little longer than the life of Husky Oil Company. We started in business at Cody, Wyoming, on January 1, 1938, but it seems only yesterday that we made the first small down payment on the 900 barrel refinery and the five wells in Oregon Basin field which produced about 400 barrels per day of heavy asphaltic crude.

During all of our 27 years, we have operated under changing conditions and very competitive markets, usually suffering from surpluses. In fact, the two countries where we operate are nations of surpluses in almost every field of endeavor, while on a world basis two-thirds of the three billion people are even now living under conditions of acute shortages of food and most of the other commodities we consider essential.

We would be unrealistic if in our planning we did not give consideration to the effects of the doubling in the next 35 years of national and world population. The resulting increased demands could readily create shortages in almost every field.

EARLY HISTORY

We at Husky are not afraid of changes. We have weathered many in our short history. When we started in 1938, many fields of good asphalt crude in Wyoming were shut in for lack of markets. In 1946, we entered Canada and built a 1,500 barrel a day refinery to operate on surplus 16° gravity asphalt crude at Lloydminster, a small town on the Alberta-Saskatchewan border.

While surpluses of asphalt crude contributed to our initial success in both the United States and Canada, today industry in both countries is importing asphalt crude to meet its requirements. Despite all the talk of surplus crudes in our two great countries, still we are not producing sufficient volumes to supply our own needs today. This was brought home to me at the time of the Suez crisis when I served on a committee of five to which was assigned the task of locating 500,000 barrels per day of any crude in the U.S. and Canada which could be diverted to Europe without upsetting the domestic economy. Although we had the utmost co-operation of the oil industry, this assignment taxed the combined capacities of our two countries to the limit.

This does not mean that we lack sufficient reserves of oil to supply our own requirements even in this 35-year period of doubling world population. The immense reserves of oil sands in the north and oil shales in the intermountain area can supplement and add to the yet undiscovered billions of barrels of conventional oil under the surface of our two nations and will keep our countries from being have-not nations for the foreseeable future. The technological know-how to recover oil from oil sands and shale is here today. All it lacks is a political climate directed toward developing our own resources first.

The only sure thing about our oil industry is that tomorrow will be different than today. Our objective in Husky is to remain flexible and convert each problem or change to an opportunity. This we have done many times in our short 27 years. In both countries, our plants were built to meet large demands for heavy fuel oil. In both countries, the intermountain markets for heavy fuel oil disappeared when the railroads changed to diesel fuel, and we then entered the much more profitable asphalt field.

During World War II, the need for Navy special fuel oil became so acute that the manufacture of asphalt was even prohibited in the U.S. and our operations were drastically curtailed. Again we changed, and this time we received a Navy citation for constructing a second refinery in Wyoming in 28 days and increasing our throughput volume from 2,000 to 15,000 barrels per day. We were soon sending a trainload of Navy special fuel oil to Seattle every day.

When the war was ended by the dropping of the world's first atomic bomb on Hiroshima, our plant at Riverton, Wyoming, became surplus. This change made it possible for us to enter Canada in 1946 and construct the refinery at Lloydminster. At that time there was such a shortage of steel that only the surplus plant made it possible for Husky to take this important step.

Time does not permit dealing with all of our problems of change and the resulting opportunities, but the latest and perhaps greatest and most advantageous move was the combining of our U.S. and Canadian companies in June of 1960. One cause for this change was the deterioration of product prices during the late fifties. The ever increasing volume of imports of low-priced foreign crude caused many oil companies to commence using their refining and marketing facilities to obtain the posted price of their crude oil rather than operate them as profit-making divisions.

As a result of this major change, companies such as Husky, with considerably more refining than production capacity, suffered serious declines in income. From 1938 to 1957, our income had gradually increased from $50,000 to $2,000,000 per year, but with the price wars caused by the intense competition, the next three or four years found us operating at losses ranging from $1,000,000 to $2,000,000 a year.

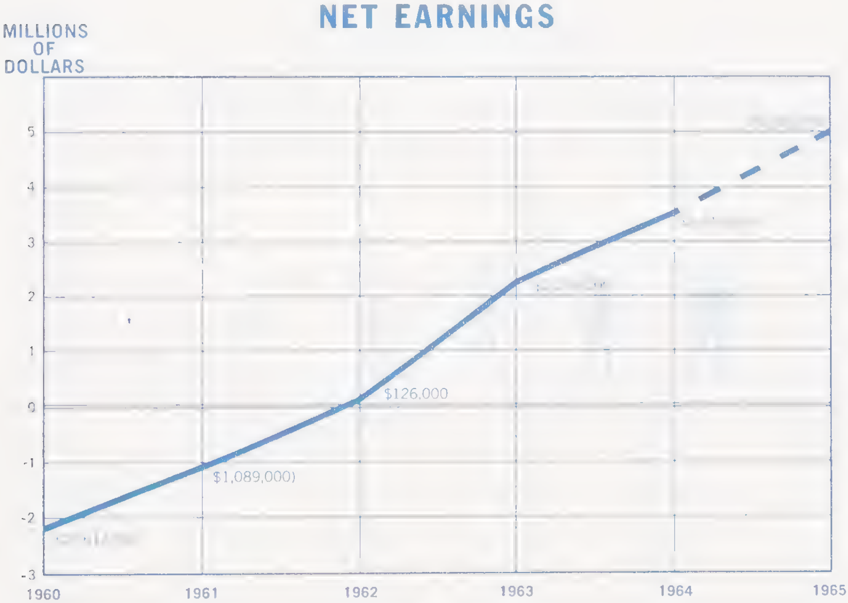
Husky's directors and management had no desire to allow our companies to become casualties caused by surpluses, and after much consideration, it was determined that it would be advantageous to join

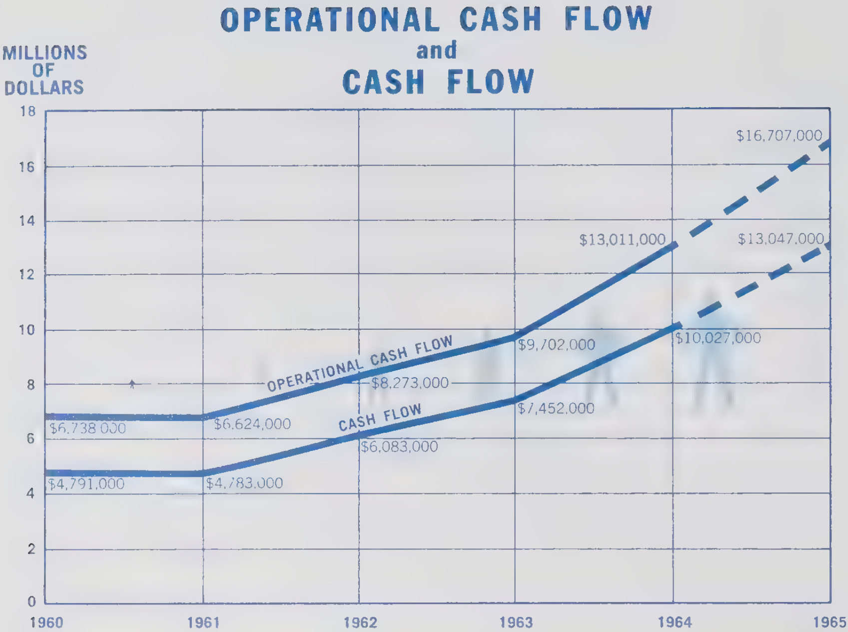
the U.S. and Canadian Huskies into one operating organization. They already had considerable common ownership, some common directors, and myself as president of both. Again we were faced with some real problems, but in June, 1960, the two companies were brought together, and the most serious problem in our history resulted in the most advantageous change.

In 1960, our losses exceeded $2,000,000. In 1961, the first full year of the combined operation, our loss was cut in half. By 1962, we were operating in the black, and I am pleased to report that our 1964 net earnings were $3,519,000. During this same period our operational cash flow increased from $6,700,000 to $13,000,000. More importantly, the forecast for 1965 anticipates our profits will reach the $5,000,000 range. Our five-year forecasts indicate that this rising trend will continue. We are only beginning to get the profit impact from the $40,000,000 of growth expenditures made during the past two years. Our long range program plans similar growth expenditures for the years ahead and forecasts a continuation of increased earnings even if present surplus conditions continue. Our improving earnings are the direct result of changes in policies and procedures which were prompted by economic problems in operations.

The first change we made in consolidating the U.S. and Canadian companies into a single operating entity was to select a board of outside Directors. We sought out men who were well known and outstanding in their various fields. Collectively, they bring to Husky a broad range of experience gained in the business world. They represent, in their daily occupations, investment and commercial banking; organization analysis

NET EARNINGS





and planning; legal, corporate and tax planning and practice as they affect operations in both countries; production evaluation and secondary recovery technology; and just good general business management.

With such varied experience, all related to the oil industry, this board assures Husky of exceptional guidance on policy and matters of major importance. Few companies of Husky's size have men of equal experience and standing on their boards.

The second step in reshaping the two companies into a single operating entity was a thorough analysis and consolidation of the two organizations. In the process of accomplishing this, about 150 positions and jobs were consolidated, with annual savings ranging from $1,250,000 to $1,500,000.

EXPLORATION AND PRODUCTION

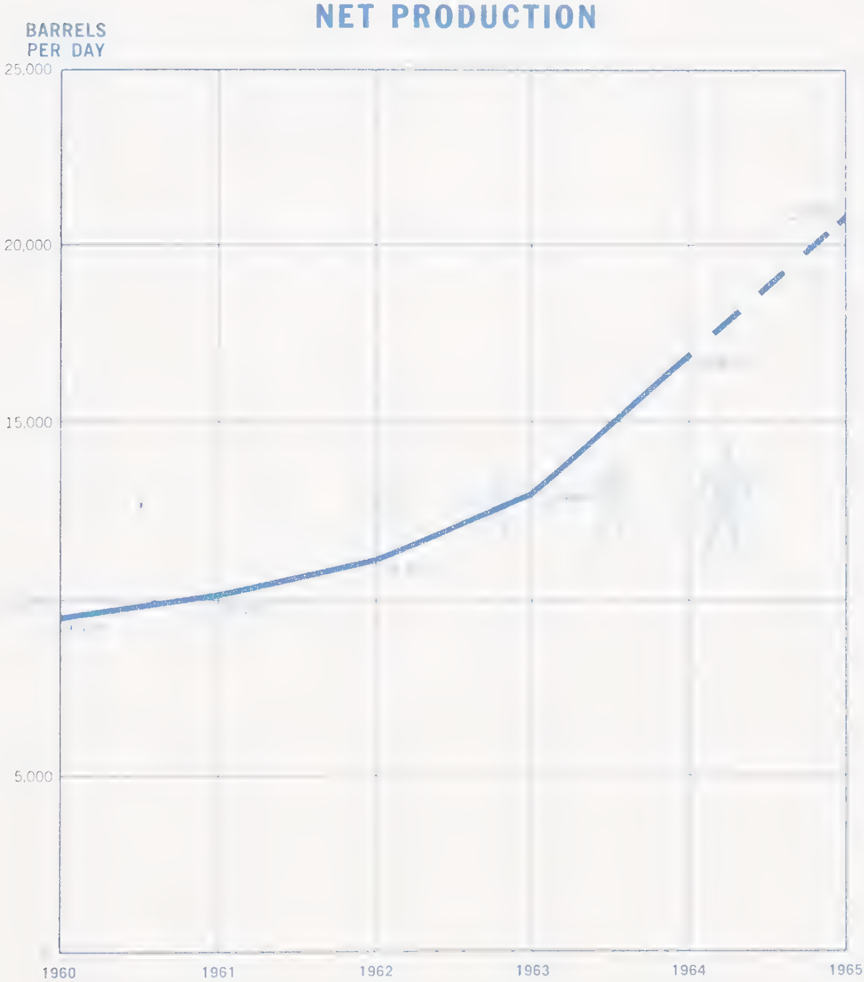
The next basic change was in exploration and production policies and programs. These two operations, in both countries, were combined under one head. We broadened the function of "exploration" to "acquisition"; which covers not only conventional exploration, but places special emphasis on field extensions, secondary recovery and on outright purchase or even merger with companies whose production and operations complement Husky's short or long range objectives.

At the same time, we changed our policy and practice of acquiring small percentage interests in exploratory plays ranging all the way from Alaska to Alabama and instead concentrated our efforts in areas which could more properly serve our own refineries. This change was responsible

for reports that Husky had ceased its exploratory program. We have enjoyed this rumor and would like it to continue, if it will guarantee comparable results in the years ahead.

Between 1960 and 1964, we increased our reserves 60% from 100 million to more than 160 million barrels of oil and equivalent natural gas.* During the same period, our production rose 77% from 9,500 barrels per day in 1960 to an average of 16,800 barrels per day in 1964. Our production rate continues to increase month by month. In January of this year, our oil and gas equivalent production averaged in excess of 20,000 barrels per day for the first time in our history. Our production

NET PRODUCTION



* For both reserves and production, gas is expressed as equivalent barrels of oil on the basis of comparative net income.

department is forecasting an average of only 20,800 barrels per day for all of 1965. However, results for the first month indicate the likelihood that the forecasts are too conservative. We are doing well for a company that reportedly has ceased exploration.

LLOYDMINSTER PROJECT

The activity which has attracted the most public attention has been our Lloydminster project in Canada. We have known for years that there were large reserves in that general area at shallow depths of 1,800 to 2,000 feet, but the difficulties of producing and marketing this heavy, viscous oil have retarded and at times completely stopped its development.

Our problems in this area helped us to conceive the idea of transporting condensate to Lloydminster by pipeline and blending it with the heavy oil in sufficient amount to meet the minimum viscosity requirements of the Interprovincial pipeline. Our original plan was to build both a three-inch and an eight-inch line from Hardisty to Lloydminster to carry the condensate and the crude blend. However, our inability to obtain contracts of sufficient volume to make this project economical led us to the building of a single six-inch reversible pipeline to move both condensate and blended crude between Hardisty, a point on the Interprovincial pipeline, and Lloydminster where our refinery is located. This reversible line was the first of its kind in Canada, and its successful operation has not only allowed us to transport by pipeline the highly desirable shut-in asphaltic crude to midwestern United States and eastern Canadian markets but has received considerable public attention.†

Once this operation became a reality, the demand soon grew beyond the initial contract volumes of 5,000 to 7,000 barrels per day and now exceeds our capacity. The Board of Directors has now authorized construction of the parallel eight-inch line, which we are happy to say is needed ahead of our expectations.

The present six-inch line will serve two long-range objectives. It will allow us to continue transporting condensate to Lloydminster, but perhaps of equal or greater importance, it will give us the flexibility of being able to economically transport to the Lloydminster refinery any combination of crudes available from Interprovincial pipeline that will best meet our product demand and increase profits.

At Lloydminster, we now have proven locations sufficient to drill about 100 wells per year for at least the next three years. Based on experience in 1964, it is most likely that by the end of that period the additional drilling will have proven that many more drillable locations.

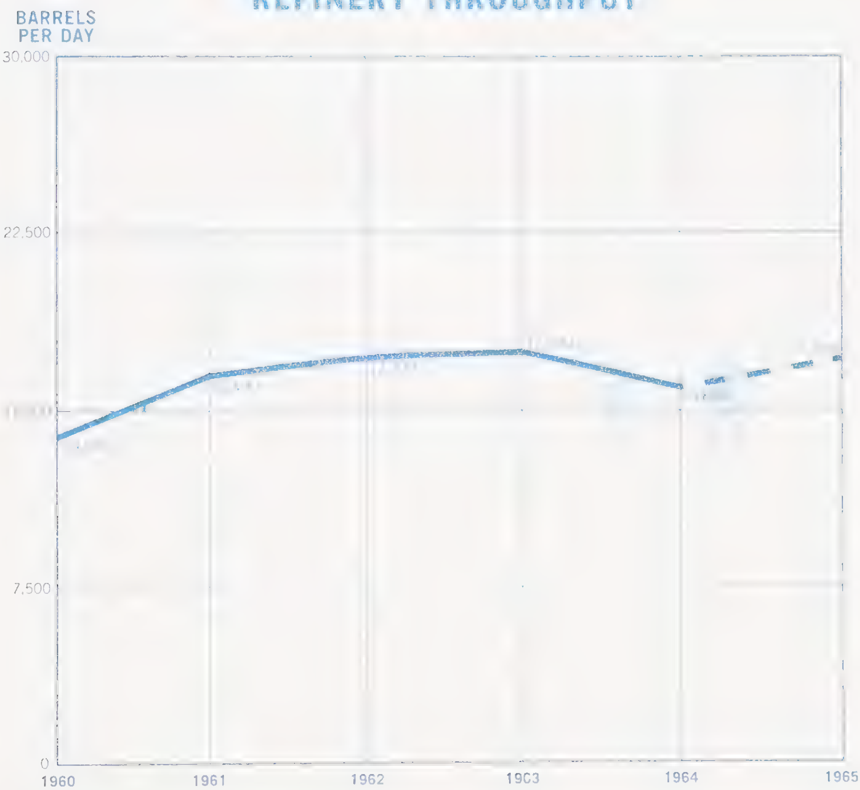
But, the real romance is in the probability of secondary recovery. Historically, primary recovery has equalled only 5% to 7% of the oil in place. Based on work already done, independent appraisal engineers report that we can expect a significantly higher rate of both primary and secondary recovery in the future.

† An article from OILWEEK more fully describing the Lloydminster project is published as Exhibit 1.

Discovery and development of additional production on the half million acres we presently hold in the Lloydminster area, plus expected secondary recovery, could easily amount to more crude than our present total reserves. In one field alone in which we own more than 90% interest, our engineers estimate at least 200 million barrels of oil in place.

While emphasizing our efforts in the areas adjacent to and serving our own refineries, we continue to be alert to other opportunities for increased production in areas which can be handled economically and which will further strengthen our position as an oil company operating in both the United States and Canada. Although our total production of crude now exceeds our refining and marketing capacity, we will continue to emphasize a broad acquisition policy aimed at increasing our reserves of oil and gas.

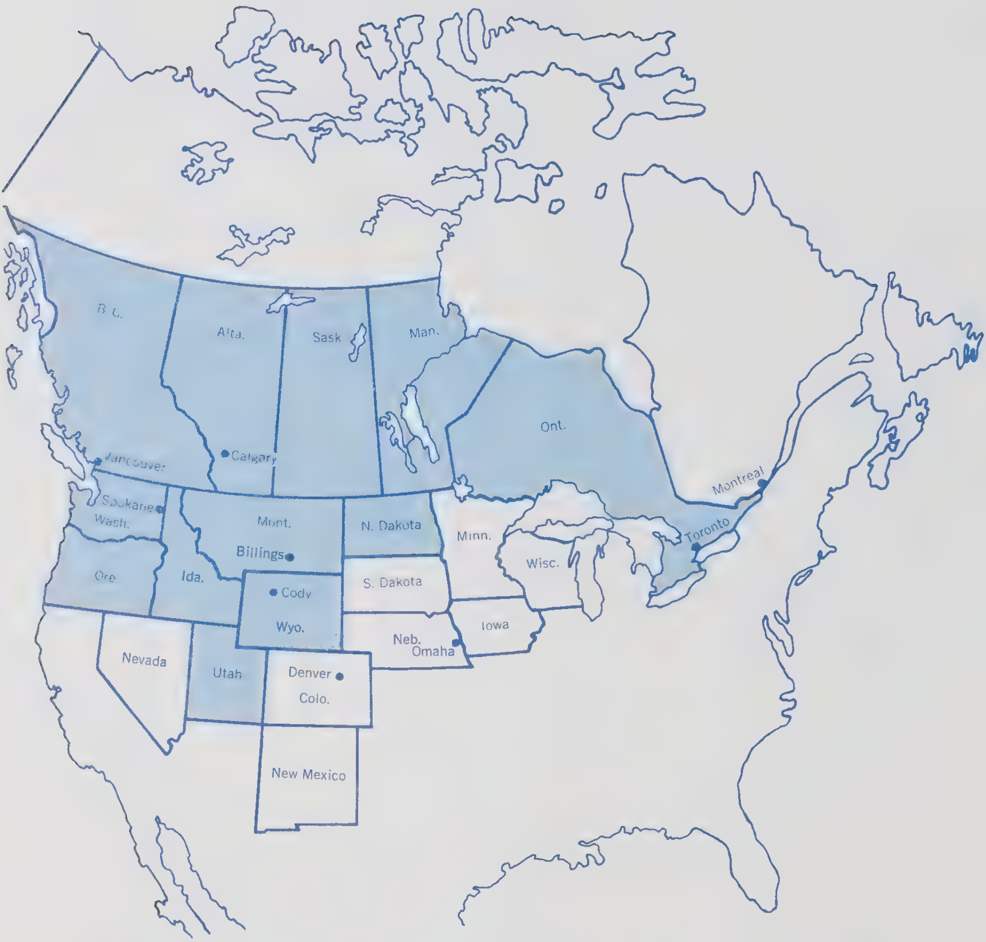
REFINERY THROUGHPUT



REFINING AND MARKETING

In recent years, some investors have questioned the wisdom of companies of our size continuing in the unprofitable refining and marketing fields. The apparent and sometimes announced policy of large companies justifying the existence and operations of their refining

LIGHT OIL MARKETING



Husky has more than 500 retail and 150 wholesale marketing outlets located in seven states and five provinces, and in approximately equal numbers on both sides of the international border. The company has been steadily improving and consolidating its outlets which are concentrated along major highways, in key cities and in and around national, state and provincial parks.

ASPHALT MARKETING

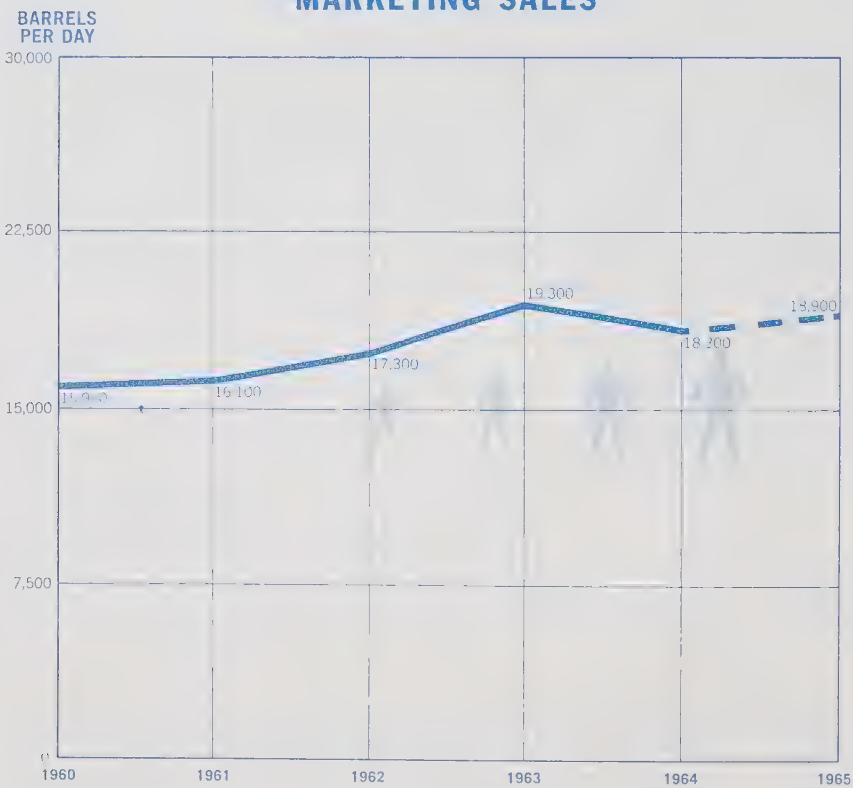
Husky's high quality asphalts are sold in 15 states and five provinces, in the area extending from the Great Lakes to the Pacific coast. The company is the largest producer and marketer of asphalt products in its marketing area.

and marketing departments as long as they returned the posted price of crude oil would seem to justify the criticism of the investors. However, we have no assurance that this condition will continue, nor do we have assurance that we would always be able to market our crude without these two departments. Husky still believes an integrated oil company is in the strongest position for the long range future with its rapidly increasing world population.

During this most difficult period, our refining and marketing departments have made many changes to increase efficiency and lower costs of operation. It can be said to their credit that their annual cash flow has continued relatively steady. In 1960, it was almost $3,000,000; in 1961, about $2,250,000; last year, $2,870,000; and in 1965 we expect cash flow to exceed $3,300,000.

The optimistic results anticipated in our long range planning do not include any provision for better refining and marketing prices in the industry generally. Should any such improvements occur, Husky, with its more economical and efficient operations, could realize increased earnings substantially higher than those predicted.

MARKETING SALES



Although we believe the strongest and most desirable position for an oil company is one of balance in production, refining and marketing, there are times when it is desirable for us to have a healthy sort of imbalance with production exceeding our capacity to refine and market finished products. This we will have in future years, at least until the profit pendulum again swings toward refining and marketing.

OTHER ASSETS

While oil operations are the backbone of Husky's business, we also have some other interests. Some are already contributing to our profit picture and others promise to do so in the near future.

HUSKY BRIQUETTING

Husky Briquetting, Inc. is a wholly owned subsidiary which has a briquetting plant in North Dakota and one in Saskatchewan. Both plants operate on lignite. The Saskatchewan plant produces commercial briquets for domestic heating. The plant in North Dakota produces a high quality barbecue briquet for the growing leisure time market. As the market increases, it is expected that the Saskatchewan plant will be converted to the manufacture of barbecue briquets. This operation has had its share of problems and losses in entering this new energy market. Its cash loss has been as much as $300,000, which was decreased to around $30,000 in 1964. With the plant and product improvements already completed and new sales arrangements, our forecast anticipates a cash flow in excess of $100,000 for 1965.

RIMROCK TIDELANDS

We also own a 60% interest in Rimrock Tidelands, Inc., a drilling company with headquarters at Shreveport, Louisiana. Rimrock owns three offshore drilling units, has a fourth under construction and owns eight land rigs. The company also has an interest in large acreage holdings in Tunisia and is presently operating a drilling rig in that country on acreage in which both Rimrock and Husky own interests. Rimrock has just signed a contract for a second, larger rig to be shipped to Tunisia soon. The company plans to increase its domestic offshore and foreign contract drilling operations.

Rimrock Tidelands' operational cash flow was $1,173,000 in 1960 and $2,100,000 last year. The company lost $817,000 in 1960, and it just so happens that the 1964 profit was $817,000. Current forecasts are for 1965 earnings of more than $1,000,000. We believe offshore drilling and foreign operations are the more rapidly expanding areas of the oil industry.

STEEL OPERATIONS

For 11 years we have had interests in the steel fabrication and warehousing business. We acquired Gate City Steel, Inc. with the original expectation of converting its steel tonnage to the production of much needed casing and line pipe. Later, we were able to obtain the necessary pipe, and this conversion was never made, but we continued operating the steel business due to its attractive financial returns.

However, the steel business suffered substantial reverses in profitability about the same time as we were having trouble in our refining and marketing divisions. Our problems at Gate City were compounded by the untimely deaths of three of our top management people within less than a year. In 1961, to gain management, we joined our interest with Bannock Steel and now have a 50% interest in two plants in Idaho and two in Nebraska. The other 50% is owned by the present management, and they have changed radically the earnings of this company.

The operational cash flow of Bannock and Gate City in 1961 was $531,000 and in 1964 it was $1,196,000, with net profits, after preferred dividends, but before taxes, ranging from $38,000 to $604,000 in that same period. This has been a gratifying improvement, and we are anticipating further improvements this year, with operational cash flow for 1965 estimated at $1,400,000 and profits before taxes estimated at $775,000 after preferred dividends. Our 50% of these profits is not consolidated with Husky's statement of earnings.

BANNOCK STEEL

(Bannock Purchased Gate City Steel in 1963)

EARNINGS AND CASH FLOW

	1963	1964	1965 Estimate
EARNINGS*	$187,000	$ 604,000	$ 775,000
CASH FLOW	$623,000	$1,196,000	$1,400,000

* After preferred dividends

PHOSPHATES

One of our most attractive non-oil assets is our large phosphate deposit in Southern Idaho. To ensure having knowledgeable management for this project, Husky entered into an agreement with International Minerals and Chemical Corporation to evaluate the deposit and study the feasibility of a multi-million dollar phosphate fertilizer operation. To grow the food needed for the rapidly expanding population, it is forecast that world demand for phosphate fertilizer will triple by 1980.

While it is difficult to predict precisely what our phosphate holdings will mean to Husky in the years ahead, it is certainly safe to say that they constitute a most promising and valuable asset. We are happy to be associated with a partner who is recognized as a world leader in the production of fertilizers and chemicals.

Our company is fortunate to have as its major assets reserves of oil, natural gas and phosphates, all irreplaceable natural resources — resources whose development and proper use will be vitally necessary in providing for the doubling population of our two great countries in this century. The acute shortages already existing with two-thirds of the world's population will be multiplied as this less fortunate portion of our population likewise doubles. Even now, these nations are unable to supply the bare necessities for existing and it is difficult to forecast

the extent of assistance that will be needed by these people in the next 35 years. It is a safe conclusion to anticipate that both Canada and the United States will be affected by the increased demands of these have-not areas.

FERTILIZER REQUIREMENTS

1912	1964	1980
30 MILLION TONS	45 MILLION TONS	136 MILLION TONS

FINANCIAL

We are justifiably proud of the improvements evident in almost every facet of our business, but one of our most important improvements does not appear in our increased earnings, increased production, better refining and marketing facilities, or even in our important other assets. This is our increased ability to obtain capital.

All companies go through various stages of financial acceptance in the investment community. For years, Husky has enjoyed a splendid relationship with banks and insurance companies and has utilized large volumes of ten to fifteen year money secured by production mortgages and other types of collateral security. However, last year, Husky entered a new financial field and successfully sold to the public two major long-term issues.

The first was an issue of $10,000,000 of preferred stock. This was a 6% issue with a 3% sinking fund, or the equivalent of 33-year money. The issue is not convertible, and our only concession—a very minor so-called sweetener—was that each share carried one warrant entitling the holder to purchase one share of common stock at accelerating prices commencing above our market at that time. This issue was over-subscribed, and the preferred stock, with the common stock warrants detached, is now selling well above par. The reception this issue received convinces us that, with today's market conditions, we could probably handle future issues without the use of any sweetener.

Later in 1964, we took what we consider a more important step forward in financial maturity when we offered $20,000,000 of 6% debentures to the public and these, too, were quickly over-subscribed. This issue's sinking fund requires only 75% to be repaid within 19 years, with the other 25% coming due in a balloon payment at the end of the 20th year. The smaller sinking fund gives this issue the equivalent of 26-year money, and there were no warrants or conversions of any kind. This is an open-ended issue which allows us to sell additional debentures as our earnings base expands. The only security required was a pledge of the stock of U.S. Husky, a wholly-owned subsidiary. The terms of this issue were very fair to Husky.

We consider these two issues as evidence of Husky's maturity and acceptance in the public market of the financial world. Much credit is

due our financial department for its wise planning and handling of Husky's financial needs. We believe we are now in a position to raise the necessary capital to finance any acquisition of reasonable size, and we are actively seeking sound oil investments that will complement our present operations and yield attractive economic returns.

ORGANIZATION

Our consultant on organization says that no company should expand its operations until its management is capable of properly handling the resulting increase in activities. I have no hesitation in saying that Husky is ready now to handle a much larger operation than we have at present. In all of our 27-year history, we have never had a more capable and efficient organization nor one more willing to assume additional responsibilities.

The members of our Executive Committee are continually seeking ways and means of expanding and increasing the company's activities, and all are anxious to see Husky grow. However, they carefully evaluate every project, satisfying themselves that it shows good prospects of an acceptable return before approving it for acquisition, construction or development.

Without question, people are our greatest asset, and our management is optimistic for the future of Husky. We are ready to assume our share of the problems and the challenge to our industry by the rapidly increasing population in the United States, Canada and the world.

The following article describing Husky's Lloydminster project appeared in OILWEEK August 5, 1963.

Husky Oil Canada Ltd. has announced details on a $6 million project to market heavy asphaltic Lloydminster crude in eastern Canada and the midwestern United States.

At a press conference in Calgary, Glenn E. Nielson, president of Husky, told reporters that five-year contracts have already been signed for delivery of approximately 6,000 b/d of crude-condensate blend beginning in 1964. Initial purchasers are the British American refinery at Clarkson, Ontario and Murphy Oil Corporation at Superior, Wisconsin.

A two-way pipeline system will transport a blend of crude and condensate from Lloydminster to Interprovincial's Hardisty terminal. The same line will also be used to carry condensate and Wainwright crude to Lloydminster.

BLEND WITH CONDENSATE

High viscosity of heavy Lloydminster crude has made pipeline transportation impractical until recently. By blending it with condensate from the Rimbey area in Alberta, this difficulty will be overcome.

"We are very pleased that British American Oil will not only purchase Lloydminster crude but will also join with us in experiments looking toward better, more efficient methods of producing and transporting asphaltic crude oil to eastern Canadian markets," Mr. Nielson stated.

"The Lloydminster project includes many complex phases which have been under study for nearly two years," he said. "We are grateful for the generous co-operation Husky has received from many quarters, particularly British American, Murphy Oil Corporation, who were the first to sign a contract, Gibson Petroleum Company Limited, and Interprovincial Pipe Line."

SHORT SUPPLY

Demand for asphalt crude is growing at an approximate rate of six percent annually and is expected to reach a level, where, according to Mr. Nielson, there will be a shortage in supply.

At the same time vast reserves of asphaltic crude in eastern Alberta and western Saskatchewan have not been utilized due to the transportation difficulties. Instead, most of eastern Canada's requirements were supplied by imports.

The Husky project will help to implement the national oil policy objectives, by supplying markets west of the Ottawa Valley with products refined from Canadian crude oil.

Asked if production from the Athabasca tar sands will not limit markets for Lloydminster crude, Mr. Nielson replied that the recovery methods suggested so far will not produce oil suitable for asphalt production.

The initial step in Husky's project is a six-inch pipeline which will run 72 miles from Lloydminster to Hardisty, via Wainwright. At Hardisty, the line will connect with Gibson's terminal and injection facilities which feed into the Interprovincial system.

Cost of this pipeline will be approximately $3 million. Gathering systems at Lloydminster and Wainwright, field development and refinery modifications, will add another $3 million to the company's 1963 expenditures for the project.

COMPLETION BY DECEMBER

Right-of-way acquisition for the pipeline is now more than half complete, pipe and other equipment are on order, and construction of storage tanks has started. The company expects to call for pipeline construction bids by mid-August, and completion of all facilities is scheduled for December.

Capacity of the six-inch line will be lower than the original Blackfoot Hills project, which first contemplated blending of Lloydminster crude with condensate for marketing in eastern Canada.

Additional pumping stations and heating of crude during delivery through the line could bring ultimate capacity of this line up to 10,000 b/d, Mr. Nielson said, but this would not be a too economical way of doing it. Husky hopes that markets in eastern Canada and the U.S. will grow at a sufficient rate to warrant an early construction of the second phase of the project, an eight-inch line to carry the crude and condensate blend, with the present six-inch line reserved for the flow of condensate and Wainwright crude to Lloydminster.

This second line would require additional expenditure of some $3 million, using some facilities of the present line. It will provide transportation capacity of up to 15,000-17,000 b/d.

In the past year, Husky has shipped nearly 750,000 barrels of the blend to various refiners using Gibson's injection facilities at the Edmonton terminal of Interprovincial Pipe Line. These test shipments have proved the feasibility of shipping asphaltic crude oil to eastern refiners.

Husky's Lloydminster refinery will begin processing crude oil from the Wainwright field. Mr. Nielson explained that Wainwright crude yields high quality asphalt and other products when refined by itself, but that eastern refiners prefer the Lloydminster blend. By using Wainwright crude in its refinery, Husky will have more Lloydminster oil available for eastern markets without sacrifice of the quality of its own products.

LARGE RESERVES

Husky estimates recoverable heavy crude reserves in the general Lloydminster area of Alberta and Saskatchewan at close to 100 million barrels, with not much more than five percent of the oil in place to be recovered. Geological conditions make secondary recovery projects very difficult. Husky owns about 50 percent of these reserves.

According to Mr. Nielson, a large number of new wells will have to be drilled in order to recover all these reserves. He warned, however, that development drilling should keep pace with the market growth, because the cost of keeping wells shut-in in the area is relatively high.

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